

Exhibit 77

NY-09875

Garlinghouse_Bradley_20200910

9/10/2020 9:03 AM

Full-size Transcript

Prepared by:

NY-09875

Thursday, October 8, 2020

1 UNITED STATES SECURITIES AND EXCHANGE COMMISSION

2
3 In the Matter of:)

4) File No. NY-09875-A

5 RIPPLE LABS, INC.)

6
7 WITNESS: Bradley Kent Garlinghouse, Jr.

8 PAGES: 1 through 256

9 PLACE: Securities and Exchange Commission

10 100 F Street, N.E.

11 Washington, D.C. 20549

12 DATE: Thursday, September 10, 2020

13
14 The above-entitled matter came on for hearing via
15 Webex, pursuant to notice, at 9:03 a.m.

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23
24 Diversified Reporting Services, Inc.

25 (202) 467-9200

1 APPEARANCES:

2
3 On behalf of the Securities and Exchange Commission:

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1 APPEARANCES (CONT.):

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C O N T E N T S

WITNESS: EXAMINATION

Bradley Kent Garlinghouse, Jr.	6
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EXHIBITS: DESCRIPTION IDENTIFIED

132	WU_RIPPLE_0007414 - 7416	170
133	MONEYGRAM_SEC_0012111 - 12140	236
134	MONEYGRAM_SEC_0000002 - 0000069	136
137	Live_tapes_20200824_Session 1_Update 1	193
	CNBC	
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203	RPLI_SEC 0026844	221
221	RPLI_SEC 0069806 - 812	203
224	PowerPoint entitled xRapid Deep Dive, Q4 1027	200
229	RPLI_SEC 0221467 - 1470	227
239	RPLI_SEC 0236083 - 085	205
246	Slide Deck	237
254	Background Questionnaire	9

1 P R O C E E D I N G S

2 MS. WAXMAN: We are on record on September
3 10th, 2020 at 9:03 a.m.

4 Mr. Garlinghouse, will you please raise your
5 right hand?

6 Whereupon,

7 BRADLEY KENT GARLINGHOUSE, JR.

8 was called as a witness and, having been first duly
9 sworn, was examined and testified as follows:

10 EXAMINATION

11 BY MS. WAXMAN:

12 Q Please state your full name and spell your name
13 for the record.

14 A Full legal name is Bradley Kent Garlinghouse,
15 Jr., B-r-a-d-l-e-y, K-e-n-t, G-a-r-l-i-n-g-h-o-u-s-e,
16 Jr., J-r.

17 Q Good morning.

18 A Good morning.

19 Q My name is Daphna Waxman and with me are
20 colleagues Jon Daniels, John Enright and Jorge Tenreiro,
21 all of whom are officers of the Commission for the
22 purpose of this proceeding. This is an investigation by
23 the United States Securities & Exchange Commission In the
24 Matter of Ripple Labs, NY-9875.

25 The purpose of the investigation is to

1 determine whether there have been violations of the
2 federal securities laws. However, facts developed in
3 this investigation may constitute violations of other
4 federal or state civil or criminal laws.

5 Prior to the opening of the record, you were
6 provided with a copy of the formal order of investigation
7 in this matter. It will be available for your
8 examination during the course of this proceeding.

9 Mr. Garlinghouse, have you had an opportunity
10 to review the formal order?

11 A Yes, I have.

12 Q Do you have any questions regarding the formal
13 order?

14 A No, I do not.

15 Q Prior to the opening of the record, you were
16 also provided a copy of the SEC Form 1662.

17 Mr. Garlinghouse, have you had an opportunity
18 to review the Form 1662?

19 A Yes, I have.

20 Q Do you have any questions regarding this
21 notice?

22 A No, I do not.

23 Q Mr. Garlinghouse, are you represented by
24 counsel here today?

25 A I am.

1 MS. WAXMAN: Would counsel please identify
2 themselves for the record, state who you represent, your
3 firm's name, your location and whether you're
4 participating by video or by phone.

5 MR. SOLOMON: Sure. Matthew Solomon from
6 Cleary Gotlieb Steen & Hamilton. We represent Mr.
7 Garlinghouse in his personal capacity, and Nicole Tatz,
8 T-a-t-z, my colleague from Cleary, is on video here in
9 Washington, D.C. I am in New York City with Mr.
10 Garlinghouse.

11 MR. CERESNEY: Andrew Ceresney and my
12 colleagues Joy Guo and Jen Cowan. I and Joy are in the
13 conference room with Mr. Garlinghouse in New York City.
14 Jen Cowan is in her apartment in New York City. We are
15 from Debevoise & Plimpton. We represent Ripple, the
16 company, as well as Mr. Garlinghouse personally.

17 And also I'll identify [REDACTED]
18 [REDACTED], general counsel of Ripple, is here in the
19 conference room in New York City with Mr. Garlinghouse.

20 MS. WAXMAN: Is there anyone else who is
21 participating today either by video or by phone?

22 Okay. And Matt, just to clarify, are you in a
23 conference room in New York City with Mr. Garlinghouse?

24 MR. SOLOMON: Yes, I am.

25 MS. WAXMAN: And also with attorneys from

1 Debevoise?

2 MR. SOLOMON: That's correct, and [REDACTED]
3 There are five of us here.

4 MS. WAXMAN: In New York City?

5 MR. SOLOMON: Correct.

6 MS. WAXMAN: In Debevoise's offices?

7 MR. SOLOMON: No. We're at Ripple's offices in
8 Chelsea.

9 MS. WAXMAN: Okay. Got it. Thank you.

10 BY MS. WAXMAN:

11 Q Mr. Garlinghouse, as you may be aware, multiple
12 representation of witnesses by counsel presents a
13 potential conflict of interest, and the Form 1662 states
14 that the Commission will assume that the witness and
15 counsel have discussed and resolved all issues concerning
16 possible conflicts.

17 A Understood.

18 (SEC Exhibit No. 254 was marked for
19 identification.)

20 Q I'm going to share my screen and provide you
21 with the background questionnaire which we have marked as
22 Exhibit 254. I don't have a printed copy because I
23 received it late the other day and we didn't have enough
24 time to send it to the printer. So give me a minute and
25 I will share it with you, share my screen with you.

1 A Okay. Sounds good.

2 MR. CERESNEY: Just give us one moment. We
3 just want to arrange, make sure that Mr. Garlinghouse has
4 the appropriate copy.

5 MS. WAXMAN: Sure.

6 MR. CERESNEY: We have a sealed box.

7 THE WITNESS: We have not opened this.

8 BY MS. WAXMAN:

9 Q No, don't open that. We're not going to open
10 that until the evening.

11 I received -- I don't even remember, maybe it
12 was late yesterday or maybe the day before -- a completed
13 background questionnaire.

14 A Yes.

15 Q And I couldn't -- it was too late for us to
16 send to our copier vendor. It was too late to put it --
17 to prelabel and put it in the binder of exhibits that
18 were -- the exhibits that were sent by PDF.

19 A No problem. I will review it on the screen as
20 you share it.

21 Q Sure. So I just wanted to clarify where this
22 document fits into the scheme of things. Do you have a
23 binder of documents that have been prelabeled?

24 A (Indicating.)

25 Q Perfect.

1 A Sorry. To acknowledge verbally, yes, I do.

2 Q Okay. Thank you.

3 Can everyone see my screen?

4 A Yes. Well, I can. I won't speak for everyone.

5 Q Okay. So I've been showing you what's been
6 marked as Exhibit 254. Mr. Garlinghouse, do you
7 recognize what's been marked as 254? And on the first
8 page, it says Background Questionnaire, and I can scroll
9 down. It's a total of 12 pages.

10 A Yes, I do see that.

11 Q And is this the background questionnaire that
12 you completed?

13 A Yes, it is.

14 Q Is everything that you provided accurate in the
15 questionnaire?

16 A Yes, it is.

17 Q Do you have any additional -- some of the
18 answers are incomplete. Do you have any additional
19 information that you want to add today?

20 A I'm happy to answer any other further questions
21 about it.

22 Q Okay. I think we'll hold on for now. I just
23 wanted to mark it as an exhibit. And now I'm going to
24 stop sharing my screen.

25 Mr. Garlinghouse, can you just provide me with

1 a brief background of your educational history?

2 A Sure. For -- starting with undergraduate work,
3 I actually my freshman year went to Georgetown
4 University, transferred to the University of Kansas for
5 my sophomore, junior, senior, graduated from the
6 University of Kansas in 1994 with a bachelor of arts in
7 economics. I attended Harvard Business School and
8 graduated with my masters in business administration in
9 1997.

10 Q And can you provide a brief history of your
11 employment since graduating from graduate school?

12 A Of course. My first job out of graduate school
13 was with a company called the Home Network. I left the
14 Home Network to join an investment group called CMGI
15 Ventures. From there I became CEO of a voice over IP
16 startup called Dialpad. Dialpad was acquired by Yahoo.
17 I worked at Yahoo for about six years in a range of
18 positions.

19 I left Yahoo in 2008 and joined an investment
20 firm called Silver Lake Partners. I was at Silver Lake
21 for approximately one year and then joined AOL for about
22 three years. And then I was CEO of another startup
23 called YouSendIt, changed its name to Hightail, and then
24 I joined Ripple.

25 Q Okay. I just want to make sure I got that.

1 When did you join the company that merged with -- that
2 was bought by Yahoo?

3 A I joined Dialpad in 2000.

4 Q And what was your role?

5 A CEO.

6 Q And what was Dialpad's business at the time
7 that you joined?

8 A Dialpad was an early pioneer in voice over IP
9 technologies. You can simplistically consider it a
10 precursor to Skype.

11 Q And when Yahoo acquired Dialpad, did you assume
12 the same role that you had when you joined?

13 A I'm not sure I understand that question.

14 Q Well, did your responsibilities change when
15 Yahoo acquired Dialpad?

16 A Yes. At Yahoo, I had a broader mandate running
17 their -- well, when I first joined Yahoo, I was
18 responsible for what we called the communication
19 products, which included Dialpad but it also included
20 Yahoo Mail, Yahoo Messenger, some other things I'm sure
21 I'm forgetting, Yahoo Groups. My career progression at
22 Yahoo ultimately included the Yahoo home page, Flickr.
23 I'm probably forgetting some other things.

24 Q But generally what were your responsibilities
25 with respect to all those products?

1 A Apologies. My response -- I was effectively
2 the general manager of the group at Yahoo responsible for
3 those products, from both an operations as well as P&L,
4 profit and loss.

5 Q Were those products profitable for Yahoo?

6 A Yes.

7 Q Were they profitable during your entire time
8 that you were in that role?

9 A Honestly, I don't know that I remember the
10 first year or two but certainly the last four years.

11 Q And how did it happen that you left Yahoo and
12 joined Silver Lake Partners?

13 A Yahoo had had an acquisition offer from
14 Microsoft which, frankly, caused all kinds of turmoil,
15 and myself and a number of other leaders left at that
16 time when Yahoo decided not to take the Microsoft
17 acquisition offer. And I announced my departure in the
18 summer of 2007 but left in Q1 of 2008.

19 Q And what role did you take at Silver Lake?

20 A My title was senior advisor. I've -- in
21 Silicon Valley parlance, I would have called it
22 entrepreneur in residence.

23 Q What does that mean? What were your
24 responsibilities at Silver Lake?

25 A Silver Lake, as you may know, is a large

1 technology, mostly buyouts and -- well, buyouts, and the
2 thesis was that Silver Lake might buy something that I
3 would end up running. So I was an advisor to them, as
4 when I joined they had not done any investments in the
5 Internet space. And so I was an advisor on a number of
6 deals they were looking at and the thesis was that
7 perhaps they would buy something, I would end up running
8 it. Ultimately obviously I left to join AOL as part of
9 the team there that spun out of Time-Warner.

10 Q Did Silver Lake buy any of the deals that you
11 were advising on while you were at Silver Lake?

12 A Yes.

13 Q Which one?

14 A Skype was probably the biggest one. I mean,
15 advising of course is a loose word so there may have been
16 some other deals they consummated while I was there that
17 I may have had meetings about, but Skype would have been
18 the most consequential one.

19 Q And what sorts of advisory services did you
20 provide on the Skype deal?

21 A I was an -- I mean, the Silver Lake team had
22 very few people who had worked in the Internet space, and
23 so I advised them on how my experience with
24 Internet-based business models, whether it's
25 subscriptions, advertising, customer acquisition, even to

1 some degree technology and operations.

2 Q Were there any deals that Silver Lake acquired
3 other than Skype that you advised on?

4 A I can't recall.

5 Q How did it happen that you joined AOL?

6 A A gentleman named [REDACTED] called me and
7 recruited me to join the team at AOL.

8 Q And when was that?

9 A Q4 2008, I believe.

10 Q And what did he say when he called?

11 A I don't recall.

12 Q And what position did you take at AOL?

13 A My title was president of consumer
14 applications.

15 Q And what were your responsibilities?

16 A I was the general manager of a host of
17 different products similar in many ways to the product
18 suite was responsible for at Yahoo.

19 Q And as manager, what were your general
20 responsibilities?

21 A I was responsible for -- I was ultimately
22 responsible for product strategy, product development,
23 P&L.

24 Q Anything else?

25 A I think that encompasses all of it.

1 Q And when did you leave AOL to join YouSendIt?

2 A 2012. I think 2012.

3 Q And why did you leave AOL?

4 A I was tired of commuting back and forth across
5 the country.

6 Q Where were you commuting?

7 A I have spent basically all of the last 23 years
8 in the San Francisco Bay area. As you may know, AOL is
9 headquartered in New York City.

10 Q Were there any other reasons that you left AOL
11 besides the commuting issue?

12 A I probably lost some confidence in the
13 direction the company was going.

14 Q Why did you lose confidence in the direction of
15 the company?

16 A Yeah, I think any -- there is a famous Warren
17 Buffett saying that most turnarounds don't turn, and I
18 think in order to pursue a project like AOL at that stage
19 in its revolution, you have to have the confidence and
20 belief that you can turn it around. And after two and a
21 half years of pursuing that endeavor and traveling across
22 the country at some personal expense, I decided that my
23 time and energy might be best applied somewhere else.

24 Q When you say -- what are you referring to when
25 you say turn it around?

1 A Well, AOL at that stage of its evolution, you
2 know, as you're probably familiar, America Online, AOL,
3 had started as a dial-up Internet service and its
4 business had -- you know, that part of the business
5 certainly was contracting, and AOL had sought to grow its
6 business in more of a traditional online media framework
7 analogous frankly to Yahoo, I think.

8 And when I described turnaround, I'm thinking
9 about a contracting business in hopes of investing in and
10 growing a new business to yield growth in the overall
11 business.

12 Q You said earlier that after AOL, you joined
13 YouSendIt as CEO. Does YouSendIt still exist?

14 A I actually don't know the answer to that.

15 Q What was it at the time that you joined?

16 A YouSendIt was a file management service. The
17 name described it aptly. Particularly at that time, it
18 was very difficult to send and manage and share securely
19 large files. Actually, I don't know the service that the
20 SEC uses but I know that you use some service to share
21 files with us. It would have been similar to that.

22 Q We use Accellion formerly known as Kiteworks.

23 A So YouSendIt was a competitor in that space.
24 It was ultimately acquired after I left. I can't
25 remember by whom right now.

1 Q And how did it happen that you became CEO of
2 that company?

3 A I was recruited by the board of directors.

4 Q And what were your responsibilities as CEO of
5 YouSendIt?

6 A I was responsible for the strategy, operations,
7 profitability, overall success and execution of the
8 company.

9 Q When you joined YouSendIt, how large a company
10 was it?

11 A As measured by what?

12 Q How many employees did it have?

13 A It had about 200 employees as I recall.

14 Q Did it have any operating products?

15 A Yes. The file sharing product was live.

16 Q Was it in beta? Was it commercially -- was it
17 in commercial use?

18 A It was in commercial use.

19 Q At the time that you joined was the company
20 generating revenues?

21 A Yes.

22 Q And what were the company's revenues
23 approximately?

24 A I don't remember. If I were to hazard a guess,
25 somewhere in the \$20 million range.

1 Q So was the company profitable?

2 A No.

3 Q Why not?

4 A Because the expenses associated with the
5 operations of the business were larger than the revenues.

6 Q At any point while you were employed by
7 YouSendIt, did the company become profitable?

8 A No.

9 Q Did you have an understanding what were some of
10 the obstacles that YouSendIt faced while you were CEO in
11 terms of profitability?

12 A Yes.

13 Q What were they?

14 A YouSendIt started as what I think would
15 generally be described as a Freemium -- well, a free
16 service to manage files online, which migrated to a
17 Freemium which generally describes using a free product
18 to acquire customers to get customers -- I shouldn't call
19 it customers -- to get users to register that then the
20 company sought to upgrade to a paid product which had
21 more features and capabilities than the free product.
22 And so the company was introducing subscription products
23 layered on top of those free products that, as I
24 described earlier, are often described as a Freemium
25 revenue or Freemium business model.

1 Q So was that an obstacle that the company faced
2 in terms of its profitability at the end of the day?

3 A Yes. The costs of operating a Freemium
4 service -- it's free and there's costs associated with
5 it, and the goal of course is to achieve enough scale to
6 sign up enough paid users to more than cover the costs of
7 the Freemium service.

8 Q While you were CEO of YouSendIt, were you
9 involved in certain strategies to get -- to enable the
10 company to become profitable?

11 A Yes.

12 Q What were some of the things that you were
13 involved with that were aimed to earn a profit?

14 A I would say that there were two macro
15 strategies. One was simply to grow revenue by expanding
16 up-market, meaning going from free to premium consumers
17 to corporate enterprise sales and expanding the book of
18 business around corporations, having things like a site
19 license, again, not that dissimilar to Accellion selling
20 into the SEC.

21 And also the other macro strategy to help
22 achieve profitability would have been to manage costs
23 carefully and grow costs in line with a budget as
24 approved by the board of directors with the goal of
25 achieving a profit.

1 Q These things that you just described, had you
2 done these in your prior employments at Yahoo and at
3 Dialpad?

4 A Yes.

5 Q So did you have experience helping smaller
6 companies grow their business?

7 A Yes.

8 Q You said that YouSendIt, while you were there,
9 didn't earn a profit, correct?

10 A That is correct.

11 Q When did you leave YouSendIt?

12 A The fall of 2014.

13 Q And why did you leave?

14 A I disagreed with the -- well, we had an offer
15 to acquire the company. The board decided not to take
16 that offer to sell the company, and I decided that the
17 company would be best to have a CEO who is more excited
18 about the future of the business.

19 Q Were you not excited about the business at or
20 around the time you left?

21 A No, I was not.

22 Q Why not?

23 A Online file sharing and management is a
24 commodity business with many competitors ranging from, at
25 that time, Box and Dropbox, but certainly bigger players

1 like Google and Microsoft have entered that space and
2 made it a commoditized segment with, in my judgment, very
3 difficult to make money.

4 Q Was there something specific about YouSendIt
5 that was discouraging? I understand that the business
6 was -- I understand what you just explained with respect
7 to file sharing and some of the obstacles for adoption
8 but is there something specific about YouSendIt that
9 was -- in your words, you weren't excited about?

10 A No.

11 Q So it was just related to the company's
12 business and products?

13 A I believe that -- I believe now and I believed
14 then that the macro market opportunity around file
15 sharing was challenged for small, independent companies
16 given where larger companies like Google and Microsoft
17 were headed.

18 Q What did you do when you left YouSendIt?

19 A I drove an Uber.

20 Q And why did you choose to drive an Uber after
21 YouSendIt despite having a very long professional career
22 before YouSendIt?

23 A I thought it would be fun.

24 Q Any other reason?

25 A I was bored.

1 Q Did you have any other prospects at the time
2 other than, you know, driving an Uber?

3 A I wasn't looking for a job at that point.

4 Q Why not?

5 A I wanted to take a break.

6 Q Was YouSendIt particularly stressful that you
7 needed a break? Why did you need a break?

8 A I felt like I had been doing the Silicon Valley
9 grind for a decade or two and wanted to take some time
10 off.

11 Q You described it as a grind. What do you mean?

12 A I use that term loosely as there was a coffee
13 shop downstairs called The Daily Grind. I use the term
14 loosely that all of us in our own respective ways show up
15 for work, and I use the term loosely as just a reflection
16 of work commitments.

17 Q Were you disenchanted with Silicon Valley
18 itself or some of the companies in Silicon Valley?

19 A Not particularly.

20 Q And how long did you drive an Uber for?

21 A Just a month.

22 Q Why just a month?

23 A I was doing it for fun and just decided that I
24 had had enough fun.

25 Q So you stopped on your own?

1 A That's correct.

2 Q How did it happen that you began your
3 employment with Ripple?

4 A I received a recruiting call from an outside
5 recruiter asking me if I would be interested in talking
6 to Ripple about a position as COO.

7 Q Had you heard of the company before that call?

8 A No.

9 Q What did the recruiter tell you about the
10 company, if you recall?

11 A I don't really recall exactly.

12 Q Did you do any independent research about
13 Ripple at the time?

14 A Not before taking a meeting with Chris Larsen.

15 Q And when did you meet with Chris?

16 A Some sometime at the end of 2014 or beginning
17 of 2015. I don't remember exactly but I would guess
18 January or February of 2015.

19 Q And who is Chris Larsen?

20 A Chris Larsen is one of the cofounders of Ripple
21 and at the time, the CEO of Ripple.

22 Q And what did Chris tell you at your meeting,
23 your initial meeting with him?

24 A We spent some time getting to know each other.
25 Despite both of us having done things in Silicon Valley

1 in entrepreneurial ways for a couple of decades, we had
2 not met, and he described a vision for what an Internet
3 of value might look like and how Ripple's role in that
4 might be catalyzed and impact the growth of an Internet
5 of value.

6 Q What did he tell you -- did you understand at
7 the time what he meant by Ripple's role in the Internet
8 of value?

9 A No.

10 Q Did you eventually become to learn what he
11 meant?

12 A I don't know that he or I knew exactly what
13 that could mean or would mean. I think the nature of
14 entrepreneurial endeavors, particularly in the technology
15 industry, you often have a vision or view of what the
16 future might look like and then you work to build
17 products and services to help catalyze that outcome.

18 Q At the time that you had this initial
19 conversation or meeting with Chris, did the company have
20 any products?

21 A Yes.

22 Q Did you discuss them with Chris?

23 A I doubt that we did at that meeting.

24 Q And where did that meeting take place?

25 A I believe it took place at Ripple's offices.

1 Q And was that in San Francisco?

2 A Yes.

3 Q Was anyone else present at the meeting?

4 A No. I met some other people as I arrived and
5 departed, but no, that was just a meeting with Chris.

6 Q And during the meeting, did you discuss the
7 digital token XRP?

8 A Yes.

9 Q And what did you discuss about XRP?

10 A He mentioned it. I had no idea what he was
11 talking about.

12 Q Did you have any experience with digital assets
13 or cryptocurrencies before that meeting with Chris?

14 A Very limited. I had purchased some bitcoin
15 previously, but I was not familiar with any other digital
16 assets.

17 Q And so what did he tell you about XRP?

18 A Well, I didn't understand what he had said.
19 He -- I remember him talking about billions of XRP and
20 thinking -- and not knowing what he was talking about
21 because I had not done much homework before the meeting.

22 Q Did he say how XRP fit into Ripple's business?

23 A No.

24 Q When you left the meeting, did you have any
25 understanding of how XRP fit into Ripple's business?

1 A No.

2 Q Did you discuss the job of COO with Chris?

3 A Yes.

4 Q And did he tell you what your responsibilities
5 would be as COO?

6 A That first meeting was just an introductory
7 meeting and I don't have a specific recollection of
8 discussing responsibilities of COO.

9 Q Did you discuss with Chris at the time the
10 company's financial position?

11 A I don't know.

12 Q Well, was the company profitable at the time?

13 A At the point of that meeting, I did not know.
14 With the knowledge I have now, I know the answer to that
15 is no.

16 Q Did you discuss Ripple with anyone else before
17 you took the job?

18 A Yes.

19 Q Who else did you discuss Ripple with?

20 A To the best of my recollection, I reached out
21 to a number of different friends who I thought would have
22 an interesting insights about the crypto industry. Most
23 of those people would have been what I think now are
24 referred to as bitcoin maximalists, just because they
25 were early adopters in crypto. I spoke to a gentleman

1 named [REDACTED] I spoke to a woman named [REDACTED]
2 I'm sure I spoke to other people but it's been a number
3 of years and I can't remember all the specifics.

4 Q So ultimately, you took the job but why did you
5 decide to take the job at that time?

6 A I was compelled by the big vision for what
7 Chris had described as an Internet of value and how that
8 might impact society.

9 Q Was there any other reasons that you decided to
10 take the job?

11 A Well, I also suppose it's worth noting I had a
12 general view that any time a Silicon Valley company is
13 looking to hire a CEO, it usually means there's something
14 wrong with the company, and the reason why the Board is
15 replacing a CEO or hiring a CEO is because there is
16 something wrong.

17 And so I had made the decision that pursuing a
18 CEO job was not something I wanted to do, and instead
19 finding a compelling opportunity with an interesting
20 company and joining as part of the management team was a
21 more interesting -- where I wanted to spend my time. In
22 contrast with the AOL experience of trying to turn
23 something around or even the YouSendIt experience of
24 trying to transition a business model as CEO, I felt like
25 joining as a number two or part of the management team

1 was where I wanted to spend the next years
2 professionally.

3 Q Did you think that was a more stable or secure
4 position as opposed to CEO?

5 I'll ask a new question. Did you think that
6 was a less risky position?

7 A No.

8 Q Why not?

9 A Well, I think any startup at that stage is
10 extremely risky. The other opportunities I had at that
11 time would have been lower risk than that for sure.

12 Q And why was the Ripple opportunity a high-risk
13 opportunity for you?

14 A Well, I think Ripple and almost any startup at
15 that stage which had a series A round of funding done,
16 didn't have clarity on product strategy, didn't have
17 clarity on product market fits, that is always very, very
18 risky.

19 Q And who told you that Ripple didn't have
20 clarity on strategy or market fit at the time that you
21 joined?

22 A That's my opinion.

23 Q Did anyone share that opinion?

24 A I don't know.

25 Q And why did you believe that Ripple didn't have

1 clarity on strategy or market fit at the time?

2 A It was an extremely early stage company in a
3 nascent industry and I think any time you're trying to
4 build a company with a suite of products in a new
5 industry, it's very difficult to be able to forecast how
6 that industry will evolve, how customers will engage in
7 products that are enabled by those technologies.

8 So I think it's consistent with my experience
9 of 20 years in Silicon Valley that companies at that
10 stage rarely have clarity about product market fit. In
11 fact, companies at that state I think at that stage, if
12 they think they do have that clarity, that's probably
13 arrogance versus reality.

14 Q What industry were you talking about when you
15 said it was a nascent industry?

16 A I was thinking of the blockchain crypto
17 industry when I said that.

18 Q And is Ripple in the blockchain crypto
19 industry?

20 A Yes.

21 Q At the time that you were considering the
22 position, was it in the crypto blockchain industry?

23 A Yes.

24 Q And why was it considered part of the
25 blockchain crypto industry?

1 A I consider it part of the blockchain and crypto
2 industry because the technologies that Ripple uses to
3 solve customer problems are based upon derivatives of
4 the -- based upon and derivatives of blockchain
5 technologies and cryptocurrencies that are digital
6 assets.

7 Q Are Ripple products based upon technologies
8 that are based upon and derivatives of blockchain
9 technology?

10 A And digital assets.

11 Q And at the time, what products did Ripple have?

12 A There were two -- I'm not sure I would say
13 Ripple had any products. There was one that you might
14 call a product that was live at the time called Ripple
15 Trade. And there was a technology that Ripple had
16 developed called Codius. That would have been the two
17 that I might -- could be called products.

18 Q And what technology did they use?

19 A Meaning what products?

20 Q What technology did Ripple Trade use that was
21 based on blockchain?

22 A Oh, well, Ripple Trade was a front end for
23 enabling the trading of XRP. So when you ask what
24 technologies, I mean, I -- you know, I think it was
25 written in Ruby. Certainly would have been JavaScripts as

1 part of that technical stack. Certainly C++ would have
2 been a technology used within that as well.

3 Q Right, but what's the interaction between --
4 what's the connection between Ripple Trade and blockchain
5 technology or what's the relationship between Ripple
6 Trade and crypto?

7 A Ripple Trade I think, in today's parlance,
8 would have been called an early version of Coinbase that
9 allowed the buying and selling of XRP.

10 Q So you joined Ripple as COO. When did you join
11 Ripple as COO?

12 A I think it was April 2015.

13 Q And as CEO, did you have any direct reports?

14 A Yes.

15 Q Who were your direct reports?

16 A To the best of my recollection, Asheesh Birla,
17 [REDACTED], Monica Long. There was a woman who
18 reported to me at the time named [REDACTED], and I can't
19 remember her last name.

20 Q What was her role?

21 A HR. I'm certain I'm -- oh, what was his name?

22 [REDACTED] -- there were -- I can't recall other people beyond
23 that.

24 Q And what was Asheesh Birla's role at the time?

25 A He was vice president of product.

1 Q And Monica Long's role at the time?

2 A I believe she was director of communication.

3 Q And [REDACTED]?

4 A He was vice president of engineering.

5 Q And who did you directly report to?

6 A Chris Larsen.

7 Q And forgive me if I asked you already. What
8 were your roles and responsibilities as COO?

9 A I mean, simplistically, I was responsible for
10 the operations of the company. I certainly spent some of
11 that time in the early days thinking about the company
12 strategy, trying to focus the resources we had in a way
13 that I thought would enable us to sign up customers and
14 to have clarity on what problem we were going to solve
15 for our customers.

16 Q Were you responsible for P&L at the company?

17 A I guess I would say no.

18 Q Why not?

19 A There wasn't -- well, I think about the P&L is
20 usually somebody who controls both sides of profit and
21 loss and, at that point in my position, I would not have
22 said that I had all the levers of profit and loss.

23 Q When did you become CEO of Ripple?

24 A January 1 of 2017.

25 Q And how did it come that you became CEO?

1 A Chris Larsen, who was the CEO prior to me,
2 asked me if I would take on the position of CEO.

3 Q Did Ripple consider any other candidate other
4 than you for the position of CEO?

5 A Not that I'm aware of.

6 Q And why did he ask you to take the position of
7 CEO?

8 A I would be speculating about his impressions
9 but he wanted to step down from being CEO and so asked me
10 if I would be able to.

11 Q What was your understanding of why he asked you
12 to be CEO?

13 A My understanding is that he thought I would be
14 capable of leading the company going forward in a way
15 that would be good for the company, good for
16 shareholders.

17 Q And did he tell you why he was stepping down?

18 A I think he -- my impression is he has two young
19 kids, and I think he felt like I might be better suited
20 to lead the company than he was.

21 Q And why did he think you were better suited
22 than him?

23 A I would purely be speculating but I think -- my
24 impression of that was in some ways the -- he is more a
25 quiet introvert, very effective at the entrepreneurial

1 stage but maybe as the company scales, my leadership
2 style might be better for the company as it grew.

3 Q You said that was your understanding of why he
4 stepped down and perhaps why you were tapped to be CEO?

5 A Yes.

6 Q Did anyone share that understanding -- did you
7 discuss that understanding with anyone else at the
8 company?

9 A No.

10 Q What were your responsibilities as CEO?

11 A I was responsible for all aspects of product,
12 company strategy, execution of that strategy, you know,
13 holistically responsible for the growth and investment in
14 the company.

15 Q As CEO, were you involved in Ripple's efforts
16 to raise capital from private investors?

17 A Yes.

18 Q Were you involved in Ripple's series B or
19 series C?

20 A Both.

21 Q And what was your involvement with Ripple's
22 efforts to raise capital from private investors?

23 A I solicited and participated in numerous
24 meetings with prospective investors and discussed our
25 strategy, discussed our progress, discussed all aspects

1 of the business in both the series B and series C
2 financings.

3 Q As part of your responsibilities as CEO, did
4 you have interactions with Ripple's board of directors?

5 A Yes.

6 Q And how often did you interact with the board
7 of directors?

8 MR. SOLOMON: I'm sorry, Daphna, are we talking
9 about soon after he became CEO, during his whole time
10 period he became CEO? I just want to make sure the
11 record is clear on, you know --

12 BY MS. WAXMAN:

13 Q During your tenure as CEO, outside of board
14 meetings, how often did you communicate with board
15 members and, if that changed, please let me know.

16 A The Ripple board of directors met four times
17 per year. Let me restate that. The Ripple board of
18 directors currently meets four times per year. I don't
19 remember if we met more than that in earlier years. We
20 may have met five times a year in 2016 but outside of
21 regularly scheduled board members, there was not a lot of
22 communication with the board. I would send regular --
23 well, I intended to send regular email updates to the
24 board about the business.

25 Q Did you send regular board updates to board

1 members?

2 A Depending on how you define the word regular,
3 the answer is yes.

4 Q Well, how often did you send updates to the
5 board outside of these regular scheduled meetings?

6 A My recollection is that I started sending them
7 monthly and at some point that moved to quarterly, is my
8 recollection.

9 Q And what was the purpose of these
10 communications?

11 A Just to update stakeholders at the board of
12 directors about what's happening at their company.

13 Q As CEO, did you have interactions with Ripple's
14 shareholders?

15 A Yes.

16 Q And how often do you communicate with Ripple's
17 shareholders?

18 A The question is pretty broad meaning, you know,
19 my brothers and sisters, as it turns out, are Ripple
20 shareholders and I spoke to them a lot.

21 Q I can rephrase the question. How often did you
22 talk or communicate with Ripple shareholders about
23 Ripple?

24 A Similar to the board of directors, my intention
25 was to send regular or semi-regular updates about the

1 status of the company.

2 Q Did you field individual questions from
3 Ripple's shareholders outside of regular communications
4 or regular updates?

5 A Yes.

6 Q How often?

7 A I would be speculating. You know, that's a
8 question about my reaction to shareholders. You know, I
9 get a lot of emails so maybe I got one a day. I don't
10 really know how to -- without going through and kind of
11 looking at that.

12 Q Did Ripple hold an investor day?

13 A Yes.

14 Q And --

15 A But to be super precise about language, I think
16 you said an investor day. We held multiple investor
17 days.

18 Q When was the first time that Ripple held an
19 event for its investors?

20 A I don't recall exactly.

21 Q Did it do it when you were COO?

22 A I don't recall.

23 Q Did you hold those events while you were CEO?

24 A Yes.

25 Q As CEO, did you participate in any panels,

1 public panels or provide any public interviews?

2 A Yes.

3 Q What types of panels or interviews did you
4 participate in?

5 A Numerous, ranging from banking conferences to
6 crypto conferences to FinTech reporters. Numerous.

7 Q When you say numerous, how often did you
8 participate in these?

9 A I don't know exactly how to quantify that. I
10 mean, at different times, depending upon what was going
11 on in our business or in the industry, there might be a
12 month where I did a bunch and there might be two or three
13 months where I did almost none. So it kind of depends
14 upon what time.

15 I suppose if I were trying to just say over the
16 last five and a half years I've been there, on average
17 maybe I've done something once or twice a month.

18 Q And you said -- did you, as part of your
19 participation on those panels or interviews, did you
20 appear on television at any time?

21 A Yes.

22 Q And what programs, what television programs did
23 you appear on?

24 A I don't know that I can provide an exhaustive
25 list. At various times I was on, you know, programs that

1 I doubt -- well, I hadn't heard of like Cheddar, but also
2 well-known programs like CNBC or CNN.

3 Q What specific program on CNBC did you appear
4 on?

5 A I don't know.

6 Q Was it a financial news program?

7 A My maybe simplistic answer there is I think all
8 of the CNBC's programs are financial programs so, yes.

9 Q And did you appear on CNN?

10 A Yes.

11 Q Did you appear on Bloomberg TV?

12 A Yes.

13 Q And what was the purpose of your appearances on
14 all these TV programs or panels?

15 A I think there is not just one purpose. You
16 know, I'll identify a couple. May not be totally
17 inclusive, but educating people about the industry. As I
18 mentioned earlier in our discussion or testimony, this is
19 a nascent industry. People are learning about it, so
20 educating people about the industry of blockchain and
21 crypto, educating people about Ripple's products and
22 services within that context, discussing global
23 regulatory posture towards crypto and blockchain, those
24 are three topics I certainly would have touched on.

25 Q Are there other topics that you discussed

1 during these panels or interviews?

2 A For certain there are a myriad.

3 Q So what was the primary purpose of discussing
4 Ripple's products and services on these panels or TV
5 programs?

6 A To help the company succeed, to help raise
7 awareness by customers and overall market participants.
8 As I mentioned, it was a very nascent industry and
9 educating people about the industry and what Ripple was
10 trying to do within the industry helped us build the
11 brand of Ripple and increased customer awareness and
12 interests and engagement.

13 Q You said it raised awareness by market
14 participants. What market participants are you talking
15 about?

16 A Well, financial institutions as a primary
17 customer, regulators, market makers, you know, anyone
18 interested in the growth and evolution of these markets.
19 Whether it involved Ripple or not, I think it's useful to
20 raise awareness for the industry on these new
21 technologies.

22 Q Did you want to raise awareness for XRP
23 purchasers?

24 A I wanted to raise awareness about XRP as a
25 digital asset and how it is and is not similar to other

1 digital assets. As you're probably aware, there is a lot
2 of misinformation in the crypto industry. Some of it may
3 be innocent misinformation. Some of it may be not so
4 innocent information. And so I felt there was value in
5 clarifying and correcting misinformation about XRP.

6 Q But the question was, to whom did you want
7 to -- the question was, did you want to raise awareness
8 to XRP holders or purchasers?

9 A I would include them in the category of
10 stakeholders. And so did I want the industry at large, I
11 would include XRP. That would be a subset of that super
12 set, I think.

13 Q What do you mean by the term XRP stakeholders?

14 A What I think about XRP stakeholders, I think
15 those -- as you're probably aware, XRP is an open source
16 technology and there are a number of different companies
17 doing things in the XRP technology stack, with the XRP
18 Ledger, with XRP as a digital asset. I think of all of
19 them as XRP stakeholders.

20 Quite frankly, I think of regulators as part of
21 that stakeholder group. On a global basis, I certainly
22 spent, I don't know, maybe 20 percent of my time talking
23 about and discussing and educating, whether it's central
24 banks, whether it's regulators, about what Ripple was
25 doing, how we used XRP in our technology stack, and so I

1 view all of those players as stakeholders.

2 Q Going back to your participation in panels and
3 interviews, did anyone else at Ripple engage in similar
4 activities?

5 A Yes.

6 Q Who else?

7 A I don't know that I can provide an exhaustive
8 list. Certainly Chris Larsen, David Schwartz, Asheesh
9 Birla, Patrick Griffin would be some names that would
10 have been doing panels and discussions like that also.

11 Q Beginning in 2017, did their participation rise
12 to the level of your participation in such events? In
13 other words, were they participating in panels and
14 interviews twice a month like you said you did on
15 average?

16 A Just to clarify, I don't know exactly what my
17 testimony was. My intent was to say the average of both
18 panels and press -- as I recall the question before when
19 I said it was a couple of times a month, was referring to
20 that broader definition. I don't think I did two panels
21 a month.

22 But the new question I think is about the other
23 participants in that did they participate at a similar
24 level, I think, yes.

25 Q Was there any department at Ripple that kept

1 track of how often certain employees participated in
2 public events?

3 A Yes. The communications team would have
4 organized and otherwise tracked that.

5 Q So would they have a list of all the public
6 events that you attended on behalf of Ripple?

7 A I don't know.

8 Q How did you know that they tracked, you know,
9 Ripple employees' participation then?

10 A Because they're the team responsible for making
11 sure people are prepared and organized and coordinating
12 with conference organizers or the press for interviews.

13 Q When you gave these public remarks or
14 interviews, did anyone -- did you prepare any written
15 materials in advance?

16 A Yes.

17 Q And did you prepare the written materials
18 yourself or did someone prepare them for you?

19 A I apologize. If I can correct my previous
20 statement, written materials were prepared. More often
21 than not, I was not the preparer of those but the
22 communications team would typically prepare some sort of
23 briefing document prior to a media or other public event.

24 Q Would you consider yourself, beginning as of --
25 beginning in 2017, would you consider yourself the

1 primary spokesperson for Ripple?

2 A I certainly would have been an important
3 spokesperson. Primary is a word that can be interpreted
4 different ways. To the extent -- I doubt I was the
5 most -- other people did more public speaking and press
6 than I did by virtue of how I chose to prioritize my
7 time, but to the extent primary, as am I the, quote, most
8 important spokesperson for Ripple, probably, yes.

9 Q So you considered yourself the most important
10 spokesperson for Ripple?

11 A Yes.

12 Q And why did you consider yourself the most
13 important spokesperson for Ripple?

14 A Because I was the CEO. I am the CEO.

15 Q And why are you the most important spokesperson
16 as CEO?

17 A I think most companies -- maybe this is a
18 generalization from my experience. I think most
19 companies, the CEO is the most important spokesperson,
20 again, not necessarily measured by volume of activity but
21 by their position as CEO, kind of the buck stops there.

22 Q Is the CEO responsible ultimately for the
23 direction of the company?

24 A Yes.

25 Q As CEO, are you the face of Ripple?

1 A I think some would describe that, yeah.

2 Q Did you believe that you were the face of
3 Ripple as CEO?

4 A I don't have a clear answer to that. I think
5 Ripple has multiple people who speak on behalf of Ripple
6 and it kind of depends on which audience we're talking
7 about. Sometimes Chris Larsen is the face of Ripple as a
8 cofounder and previous CEO. Sometimes David Schwartz is
9 the face of Ripple for certain audiences. David
10 Schwartz, who is the chief technology officer, certainly
11 is an important spokesperson and face of Ripple in some
12 contexts.

13 Q Other than you, David Schwartz and Chris
14 Larsen, would you consider anyone else as being the face
15 of Ripple?

16 A From my point of view, it depends upon
17 audiences. In some contexts, you know, Asheesh Birla has
18 been the face of Ripple, but I wouldn't expand the list
19 much beyond that.

20 Q To what audience are you the face of Ripple?

21 A I mean, to the public. As the CEO, I think
22 ultimately the buck stops there and so for many people,
23 I'm the face of Ripple.

24 Q Are you the face of Ripple to individual XRP
25 holders or individual XRP purchasers?

1 A I don't know.

2 Q You don't know? Is it your understanding that
3 XRP holders and purchasers look to you as the face of
4 Ripple?

5 A I don't know.

6 Q To what audience is David Schwartz the face of
7 Ripple?

8 A When I commented on that earlier, I was -- in
9 my head, I was thinking about very technology-centric
10 conferences or audiences that are keenly interested in
11 the underlying technology where I think of David as our
12 primary face for those audiences.

13 Q What is David's standing in the Ripple
14 community and in relation to the audience you just
15 described?

16 A He is the chief technology officer of Ripple.

17 MR. SOLOMON: Daphna, it's around 10:20. I
18 know you had said that you wanted to take a break after
19 one hour. We started at about 9:04.

20 MS. WAXMAN: I just want to finish this section
21 and I'm happy to take a break. Would it be okay if we go
22 about five more minutes?

23 MR. SOLOMON: Is that okay with you?

24 THE WITNESS: Yes, that's fine.

25 MR. SOLOMON: Thank you.

1 MS. WAXMAN: Okay.

2 BY MS. WAXMAN:

3 Q And what audience do you think Chris Larsen was
4 the public face of Ripple to?

5 A The public, Silicon Valley. Chris is a
6 well-known entrepreneur in technology circles,
7 specifically FinTech circles given his experience with
8 E-Loan and Prosper.

9 Q When you say the public, does that include XRP
10 holders or XRP purchasers in the market?

11 A Yes, meaning, I think of public as the broadest
12 statement, and so I view that as the super set and an XRP
13 holder or stakeholder would be a part of that subset.

14 Q And just going back to David's standing, did he
15 have kind of a cult following?

16 A I have heard some people describe it as that,
17 yes.

18 Q Is that an accurate description from your
19 understanding?

20 A I would hesitate to -- yeah, I don't know what
21 a cult following really means. I don't know what --
22 yeah, I -- I don't have a particular view on that
23 personally. I think certainly I have heard him described
24 as having a cult following. Cult is a loaded word, so I
25 don't --

1 Q Fair enough. I'll take it.

2 Was he highly respected among the XRP
3 community?

4 A Yes.

5 Q And was he highly respected at Ripple?

6 A Yes.

7 Q And why was he highly respected?

8 A He's brilliant and insightful.

9 Q And did he play a role in the founding of the
10 company?

11 A To my knowledge, no. I don't know if that's
12 entirely fair meaning he was certainly in and around the
13 people at the founding of Ripple but, to my
14 understanding, chose not to join as a founder and
15 employee.

16 Q Just a couple more questions and then we'll
17 take a break.

18 A Sure.

19 Q Do you have a Twitter account?

20 A I do.

21 Q And do you use it to post information about
22 Ripple?

23 A Yes.

24 Q And do you post those tweets on your own?

25 A Not always but generally, yes.

1 Q Does someone else have control over your
2 account?

3 A I enable other people to access my account in
4 some circumstances.

5 Q And who have you enabled to access your account
6 and under what circumstances?

7 A Answer that in reverse order. In the
8 circumstances where I'm either away from a computer or
9 otherwise not available and interested in tweeting
10 something. And who would include people on the
11 communications team, I think only internally at Ripple.
12 Two people that come to mind with [REDACTED] and
13 [REDACTED], I think is her last name.

14 Q And just for the record, can you confirm your
15 Twitter handle?

16 A BGarlinghouse.

17 Q And is that the one that you've enabled others
18 to control at certain points?

19 A Yes.

20 Q And did you review all of the tweets that came
21 from your account?

22 A Yes. I almost always had an opportunity to
23 review tweets before they were posted.

24 Q Does anyone at Ripple manage other people's
25 Twitter accounts for them?

1 A I don't know.

2 Q And did you use your Twitter account in the
3 same way that you spoke publicly, to raise awareness for
4 Ripple and its products?

5 A That would be one way I used my Twitter
6 account, yes.

7 Q Well, I'll ask a better question. Why did you
8 tweet and how did you use your Ripple Twitter?

9 A I used my personal Twitter account, not the
10 Ripple Twitter. But I used my personal Twitter account
11 to educate, clarify, correct and at times, frankly opine
12 on things that were certainly outside of just Ripple,
13 Ripple's business and Ripple's products.

14 Q How many followers do you have on your Twitter
15 account?

16 A Somewhere around 200,000.

17 Q Did you have a Twitter account before you
18 joined Ripple?

19 A I did.

20 Q And how many follows did you have then?

21 A Fewer than 10,000.

22 Q Is the number of follows you have connected to
23 your role at Ripple?

24 A I would be speculating but I think by virtue of
25 the fact that the number of followers has grown so much

1 during my tenure at Ripple, I think the answer is yes.

2 Q And what is [REDACTED]?

3 A [REDACTED] is a public relations firm that
4 Ripple had retained for a handful of years. I can't
5 remember.

6 Q Did you retain [REDACTED]?

7 A Personally or -- I mean, the company retained
8 [REDACTED]. I didn't personally retain [REDACTED].

9 Q Did you have any involvement in that --

10 A Yes.

11 Q And what was your involvement?

12 A I knew at least one of the principals at the
13 [REDACTED] from previous work experience and thought
14 highly of their abilities and so had encouraged the
15 Ripple team to include [REDACTED] in our consideration of a
16 new public relations communications firm.

17 MS. WAXMAN: So it's 10:25. Let's go off the
18 record.

19 (A brief recess was taken.)

20 MS. WAXMAN: We are back on the record at
21 10:39.

22 BY MS. WAXMAN:

23 Q Mr. Garlinghouse, while we were off the record,
24 did you have any conversations with the staff?

25 A I'm sorry, with whom?

1 Q With any member of the SEC staff.

2 A No.

3 MS. WAXMAN: Counsel, will you please confirm?

4 MR. SOLOMON: Yes.

5 MR. CERESNEY: Yes. Just to clarify so that
6 the witness understands, you asked that to make sure the
7 record was clear there were no consultations with staff
8 off the record.

9 THE WITNESS: Got it.

10 MR. CERESNEY: Everything was on the record.

11 MS. WAXMAN: Thank you.

12 THE WITNESS: Thank you for explaining.

13 BY MS. WAXMAN:

14 Q What is the XRP Ledger?

15 A The XRP Ledger is a set of code-written
16 technology that is open source and is what enables XRP to
17 exist.

18 Q What is XRP?

19 A XRP is a digital asset.

20 Q And how much XRP exists?

21 A Approximately 100 billion units.

22 Q Can any more XRP ever be created?

23 A No.

24 Q How was the initial 100 billion XRP
25 distributed?

1 A I don't know. I was not a party to that. I
2 have information subsequently but I wasn't a part of
3 that.

4 Q Well, how much XRP did Ripple receive?

5 A My understanding is that Ripple received 80
6 billion units.

7 Q And what's the basis for that understanding?

8 A What I have read and been told.

9 Q And who told you that?

10 A I don't know. To be clear, I'm not disputing
11 that but when I arrived at the company, I can say with
12 much more confidence Ripple had about 64 billion units of
13 XRP.

14 Q At some point did you come to learn that Ripple
15 had received 80 billion XRP?

16 A That is what has been shared with me, yes.

17 Q And do you know who told you that?

18 A I do not recall.

19 Q And when did you learn that Ripple had been
20 provided 80 billion XRP?

21 A I don't recall.

22 Q And who provided the XRP to Ripple?

23 A I don't have specific knowledge about that.

24 Q Do you have any understanding of how Ripple got
25 the 80 billion XRP?

1 A My understanding is that the founders of the
2 XRP Ledger bestowed 80 billion units to Ripple, the
3 company.

4 Q Ripple has publicly emphasized that the
5 founders of Ripple gifted 80 billion XRP to Ripple.
6 Would you agree with that?

7 A No.

8 Q Okay. Why not?

9 A I believe the question you asked was if the
10 founders of Ripple gifted 80 billion units. I think the
11 founders of the XRP Ledger gifted 80 billion units is my
12 understanding to Ripple. The founders of the XRP Ledger
13 and the founders of Ripple are not the same group of
14 people.

15 Q Was there any overlap between the founders of
16 Ripple and the creators of the Ledger?

17 A Yes.

18 Q And what was the overlap?

19 A My understanding -- I mean, Jed McCaleb would
20 have been the primary overlap point as a creator in terms
21 of coding of the XRP Ledger and also a cofounder of
22 Ripple.

23 Q So it's your testimony that the -- who --
24 sorry. I want to make sure I understand. Who provided
25 the XRP to Ripple?

1 A I don't know. I assume Jed McCaleb or Arthur
2 Britto or David Schwartz.

3 Q So one of those three people provided XRP to
4 Ripple?

5 A Actually, I don't know.

6 Q Have you ever asked?

7 A No.

8 Q As CEO of Ripple, is that something that you
9 would want to know?

10 A What I would want to know is how much XRP does
11 Ripple own. I don't know how the -- the way I think
12 about it is the transaction of moving, as you asked
13 earlier, the 80 billion units to the company, I don't
14 know exactly when the -- I mean, I wasn't here. I can --
15 and I've never asked. Exactly who actually moved the 80
16 billion units I don't know.

17 Q Was Chris Larsen involved in providing the 80
18 billion XRP to Ripple?

19 A I don't know.

20 Q Have you ever asked him?

21 A No.

22 Q Have you ever discussed with anyone Chris
23 Larsen's involvement in providing Ripple 80 billion XRP?

24 A No.

25 Q Did Ripple receive XRP as a gift?

1 A That's my understanding.

2 Q And what is the basis for that understanding?

3 A What has been shared with me -- you know, what
4 has been shared with me inside the company.

5 Q By whom?

6 A I don't recall.

7 Q Did Chris Larsen share that with you?

8 A I don't recall.

9 Q Did Ripple emphasize in public disclosures that
10 it had received XRP as a gift?

11 A Yes. Gift -- sorry. I don't know that the
12 word gift would have been used specifically. I think
13 certainly we have sought to -- during my tenure at the
14 company, we have sought to educate the industry about
15 when the XRP Ledger was created as contrasted with when
16 Ripple, the company, was founded.

17 MR. SOLOMON: And I just want to be -- she
18 asked whether Ripple emphasized in its filings. I just
19 want to make sure that you're answering her question.
20 There may be a difference between emphasized and --

21 MS. WAXMAN: I'll ask a new question.

22 BY MS. WAXMAN:

23 Q Did Ripple state that it had received the XRP
24 as a gift?

25 A I'm actually not aware whether or not the word

1 gift has been used or not.

2 Q Okay. Is it your understanding that Ripple
3 received XRP as a, quote, unquote, gift?

4 A Yes.

5 Q And did you discuss with anybody why the XRP
6 was, quote, unquote, gifted to Ripple?

7 MR. SOLOMON: If you can remember, Brad. It's
8 a very general question. You should give a general
9 answer.

10 THE WITNESS: No, I don't know.

11 BY MS. WAXMAN:

12 Q Were there any legal risks that the founders of
13 Ripple wanted to avoid by distributing XRP to Ripple as a
14 gift?

15 A I don't know.

16 Q You said that it was important to distinguish
17 the chronology or the timing of when Ripple received the
18 XRP in relation to the founding of the company.

19 Why is that information important?

20 MR. SOLOMON: I don't think he said important.
21 I think he was just distinguishing.

22 I just want to, instead of repeating back what
23 Mr. Garlinghouse said may or may not be important, it
24 might be better just to ask him his understanding of the
25 difference. I just want to make sure the

1 characterization is equal to the question. That's all.

2 MS. WAXMAN: Thank you. I'll ask a different
3 question.

4 MR. SOLOMON: Sorry, Daphna. I'm not trying to
5 be difficult. I just want to make sure that you're
6 getting an answer.

7 MS. WAXMAN: That's fine. Thank you.

8 BY MS. WAXMAN:

9 Q Did the company want to make known the timing
10 of the gift in relation to when the company was founded?

11 A Yes.

12 Q And when I say make known, did the company want
13 to make that known publicly?

14 A Yes.

15 Q Why?

16 A There was incorrect -- as is the case in I
17 believe crypto at large, there was a lot of
18 misinformation. There are a lot of people championing
19 different versions of their realities. And I have always
20 felt at Ripple that it is in our best interests to be
21 transparent, to be clear and to correct those that
22 would -- generally speaking, to correct those that share
23 misinformation.

24 In this case, some people have conflated -- one
25 of the challenges has been the conflation of Ripple and

1 XRP, and so identifying that the XRP Ledger pre-existed
2 the formation of Ripple, the company, is a clarification
3 that we have sought to make in the market.

4 Q And why did you want to make that clarification
5 to the market?

6 A I think any time there is confusion in the
7 market conflating Ripple and XRP, that has not been good
8 for the industry.

9 Q Can you be a little more specific about what
10 confusion you're talking about?

11 A I mean, as one example, a frustrating -- in a
12 frustrating way, CoinMarketCap, which has is often, at
13 least historically, been viewed as the source of pricing
14 information for digital assets, listed Ripple instead of
15 listing XRP, and those are two different things. And so
16 that would be one of many examples of that confusion.

17 Q So did you believe that people confused the
18 relationship between XRP and Ripple, the company?

19 A Yes.

20 Q And why do you think people confused the
21 relationship?

22 A In part because CoinMarketCap, as the
23 historically most looked-to source of digital asset
24 pricing information, referred to XRP as Ripple.

25 Q Are there any other reasons why people confused

1 the relationship?

2 A I mean, yes.

3 Q And what are they?

4 MR. SOLOMON: I'm not trying to be difficult.

5 You're asking him whether the reasons why all people

6 confuse the relationship?

7 MS. WAXMAN: Well, I was going to clarify that.

8 MR. SOLOMON: I think it would be good to --

9 BY MS. WAXMAN:

10 Q Are you talking about XRP holders? Did XRP
11 holders confuse the relationship between Ripple and XRP?

12 A I don't know and can't speak to what any
13 individual XRP holder may or may not have thought. What
14 I do know is that the industry at large, whether that's
15 reporters, whether that's -- you know, there's
16 certainly -- and to my recollection, actually, one of
17 tweets of years ago, a tweet from me, you know, kind of,
18 hey, let's all just be clear about XRP is an open source
19 digital asset; Ripple is a private company in Silicon
20 Valley.

21 I don't remember if that was actually a tweet
22 but I have some vague recollection of that. And I think
23 any time there is confusion about that, confusion in a
24 marketplace, that's generally unhealthy.

25 Q But the question was do you have an

1 understanding whether there was confusion between the
2 relationship between Ripple and XRP by XRP holders?

3 A And I believe my answer is that I don't feel
4 comfortable speculating about what any individual XRP
5 holder did or did not think. At large, do I think there
6 is confusion in the industry? Yes.

7 Q And when you say industry, does that include
8 XRP holders and XRP purchasers in the secondary market?

9 A I would expect, yes.

10 Q Did Ripple contribute in any way to that
11 confusion?

12 A I hope not. I think we certainly, during my
13 tenure, have sought to -- what I remember early in my
14 tenure at Ripple, as an example, going to CoinMarketCap
15 and asking them to correct how they characterized XRP.

16 Q Other than the situation that you described
17 with CoinMarketCap, were there other reasons why there
18 may have been confusion?

19 A Yes.

20 Q And what are they?

21 A I don't know that I can provide a comprehensive
22 explanation for all the confusion. I think CoinMarketCap
23 is a big one because they were the most prominent. I
24 think -- and maybe even as evidenced by some of your
25 earlier questions, the fact that, as one example, Jed

1 McCaleb was an original coder/architect of the XRP Ledger
2 and also a cofounder of Ripple would be an example. I
3 don't want to at all suggest that those two data points
4 are a holistic synopsis of why there could be confusion.

5 Q Did Ripple's holdings of XRP contribute to that
6 confusion?

7 A I don't know.

8 Q Did Ripple's statements regarding XRP holdings
9 contribute to the confusion?

10 A I don't know.

11 Q Earlier you said that Ripple and XRP are
12 distinct.

13 MR. SOLOMON: Daphna, you just cut out. I'm
14 sorry.

15 THE WITNESS: Oh, yeah.

16 MR. SOLOMON: It's freezing on the screen here.

17 BY MS. WAXMAN:

18 Q Why do you believe Ripple and XRP are distinct?

19 A Ripple is a privately held C Corp. with
20 shareholders that is a company with hundreds of
21 employees. XRP is an open source, decentralized digital
22 asset not that dissimilar from bitcoin or Ether that are
23 very distinct.

24 Q With respect to the confusion, at what point
25 was there confusion? At what point in time?

1 A I think -- it is my opinion that throughout my
2 entire tenure at Ripple there has been confusion.

3 Q Is there currently confusion?

4 A I believe -- my opinion is yes.

5 Q Has Ripple engaged in efforts to try to clarify
6 the relationship?

7 A Yes.

8 Q And what has Ripple done?

9 A I don't know that I could provide an -- I'm
10 unable to provide an exhaustive list. Certainly in my
11 own public comments, I have been, as part of my
12 testimony, providing -- I apologize. A truck making some
13 noise in the background here.

14 My own comments in this testimony helping
15 provide clarification when I speak to sometimes
16 prospective -- well, the press, prospective employees,
17 prospective, you name it. I would say it's an ongoing
18 discussion.

19 Q By the way, I miss the New York City noise
20 so -- I haven't heard it for a while.

21 What was the timing of the gift in relation to
22 the formation of the company?

23 A I don't know.

24 Q I think you testified earlier that the
25 confusion was not good for the industry. Is that

1 correct?

2 A I don't think confusion in any market is good
3 for an industry.

4 Q Okay. Earlier we talked about that 100 billion
5 XRP was created, 80 billion was given to the company by
6 the founders, the XRP creators. What happened to the
7 remaining 20 billion?

8 A I don't have a precise answer to that, simply
9 meaning I am aware that some of the founders of the XRP
10 Ledger, they received some of that 20 billion but I don't
11 have specific knowledge about that.

12 Q Were some of the -- the founders that received
13 some of the XRP, were they -- when you say the founders,
14 who are you talking about?

15 A The founders of the XRP Ledger I typically
16 refer to as the people who helped code the XRP Ledger,
17 and the three people contributing to the coding of the
18 XRP Ledger, to my knowledge, are Arthur Britto, David
19 Schwartz and Jed McCaleb.

20 Q Did Chris Larsen receive any of the 100 billion
21 XRP?

22 A It is my understanding that yes.

23 Q How much?

24 A I actually don't know the answer to that.

25 Q Do you know approximately how much he received?

1 A I believe he received about 7 billion units.

2 Q Did he receive the XRP in lieu of Ripple stock?

3 A I don't know.

4 Q Did you ever discuss with anybody why Chris

5 Larsen had received so much XRP?

6 A No.

7 Q Did you ever -- strike that.

8 What is xCurrent?

9 A XCurrent was the name of a product offering
10 that Ripple brought to market in, I'm guessing, late 2016
11 or the beginning of 2017, and xCurrent was a product that
12 enabled messaging to debit and credit existing pre-funded
13 accounts for financial institutions.

14 Q When did development of xCurrent begin?

15 A I don't know exactly.

16 Q Was it before you joined the company as COO?

17 A In some context, probably, yes, meaning, you
18 know, how code is contributed to a product over a period
19 of time, you know, some aspects of what came to fruition
20 with xCurrent were -- ideas were germinating prior to my
21 arrival, and certainly we decided to focus on that
22 segment of work that had been going on at Ripple.

23 Q Does Ripple ever earn any revenue from
24 xCurrent?

25 A We have -- the name of the product, xCurrent,

1 is not a product we currently use, and so I suppose the
2 answer is no.

3 Q At any point did Ripple earn any revenues from
4 xCurrent?

5 A Yes.

6 Q And during your entire tenure at Ripple, how
7 much revenue did the company earn from xCurrent?

8 A I don't know.

9 Q Can you approximate?

10 A I would -- you know, \$10 million, 5 to \$10
11 million.

12 Q Does xCurrent use XRP or the XRP Ledger?

13 A No.

14 Q Does it use blockchain technology?

15 A You know, that's an interesting question in the
16 context of it depends a little bit how you define
17 blockchain technologies. I recall internally someone
18 saying, well, on a literal basis, I think the answer is
19 no because blockchains by definition are enablers of
20 digital assets and xCurrent wasn't using digital asset.

21 Q Does xCurrent use ILP?

22 A I would say it uses a derivative of ILP.

23 Q And is that derivative of ILP that the product
24 uses a blockchain?

25 A Well, ILP is not a blockchain and I think as

1 I -- my testimony earlier, you know, X current in a
2 literal definition is not a blockchain technology.

3 Q Under any definition is xCurrent a blockchain
4 technology or does xCurrent use blockchain?

5 A You know, I think blockchain is becoming -- in
6 my judgment, blockchain has become a heavy marketing term
7 and many companies use it loosely. IBM talks about using
8 blockchain in their marketing. Blockchain -- IBM
9 doesn't -- has not developed technology that enables a
10 digital asset and so, again, from a literal definition, I
11 would say that that is false advertising.

12 My point is simply that I think the word
13 blockchain has been used loosely by the industry to
14 describe, you know, derivatives of literal blockchains to
15 solve other problems as, again, IBM talks about they're a
16 blockchain but, again, they don't actually have a digital
17 asset technology. They just use a set of technologies
18 that I think they generally call Hyperledger.

19 Q The question is, under any definition, did
20 xCurrent use blockchain technology?

21 A Yes.

22 Q How?

23 A So if the question is under any definition of
24 blockchain, does xCurrent use blockchain technology,
25 under some definitions of blockchain as I was describing,

1 some people use blockchain loosely. When you're talking
2 to a technologist and you say does xCurrent use
3 blockchain, the answer is no.

4 Q So is it your understanding that xCurrent used
5 blockchain technology?

6 A No.

7 Q Did Ripple use the term blockchain loosely to
8 describe its xCurrent product?

9 MR. SOLOMON: I'm sorry, did Ripple use? Did
10 Brad? Did anybody at Ripple? In its company's
11 publications? I just want to make sure the record is
12 clear what you're asking.

13 BY MS. WAXMAN:

14 Q Mr. Garlinghouse, do you understand the
15 question?

16 A No.

17 Q Did you use the term blockchain loosely to
18 describe the xCurrent product?

19 A I don't recall specifically. Perhaps.

20 Q Did anyone at Ripple use the term blockchain
21 loosely when describing the xCurrent product?

22 A I'm not aware of any specific examples.

23 Q Did anyone -- did you ever describe xCurrent as
24 a blockchain technology or as using blockchain
25 technology?

1 A I don't recall.

2 Q Did anyone at Ripple describe xCurrent as using
3 blockchain technology?

4 A I don't know.

5 Q If they did, would that be false?

6 A Again, it depends upon which definition of
7 blockchain you're using. As I think I testified earlier,
8 I think a literal technology definition of what is a
9 blockchain, the answer would be no. As I was describing
10 using IBM's material, I think a technologist would argue
11 that what IBM is doing is not actually using blockchain
12 technology.

13 Q So IBM's use of the term is not accurate in
14 your opinion?

15 A I think they're using a loose definition.

16 Q What do you mean by loose?

17 A I mean I think as we all have experienced,
18 people have used terms and a literal definition -- I
19 mean, again, not to be too cute, but Kleenex is actually
20 a branded product of Kleenex, yet we use it loosely to
21 describe any paper tissue.

22 And by the way, I apologize. I'm not trying to
23 be argumentative at all. I'm simply pointing out that
24 the word blockchain in a nascent industry is being used
25 in ways that sometimes aren't actually a blockchain

1 technology.

2 Q Is the term being used to generate --

3 A Did I lose her?

4 Q -- hype?

5 A Sorry. I had a computer glitch there.

6 Q Sorry. Are people using the term to generate
7 hype?

8 A It's my opinion that it is being used loosely
9 in a way for companies and sometimes people to generate
10 interest in the space. Would I characterize it as hype?
11 You know, that's one interpretation.

12 Q What is xVia?

13 A XVia is another branded product in some ways
14 similar to xCurrent, also has been deprecated. We don't
15 use that name anymore but for a period of time, we sold
16 xVia to customers.

17 Q And when was xVia commercially deployed to
18 customers?

19 A Around the same time as xCurrent.

20 Q And during your entire tenure at Ripple, how
21 much revenue did Ripple learn from xVia?

22 A I don't know.

23 Q Approximately?

24 A I don't know.

25 Q Was it less than the revenue that it earned

1 from xCurrent?

2 A I would expect, yes.

3 Q And does xVia use the blockchain technology?

4 And I'm defining blockchain technology under the literal
5 definition.

6 A No.

7 Q Did you ever refer to xVia as using blockchain
8 technology?

9 A I don't know.

10 Q Same question for anyone else at Ripple. Did
11 anyone else at Ripple refer to xVia as using blockchain
12 technology?

13 A I don't know.

14 Q When you first joined Ripple as COO, how did
15 XRP fit into Ripple's business model?

16 A I didn't know.

17 Q At what point did you -- at some point did you
18 come to learn how XRP fit into Ripple's business model?

19 A I think Ripple's -- as is the case with many
20 technology startups in Silicon Valley, I think that is a
21 journey, not a destination, if you will. And so
22 understanding how XRP fits into Ripple's business model I
23 think hasn't been a fixed, we know exactly the answer.
24 Instead, it's been part of the journey of, you know,
25 understanding what Ripple looks like in five years is not

1 clear to me.

2 Q So would you say that XRP's relationship with
3 Ripple and its business is evolving?

4 A Yes.

5 Q And has it changed since the time that you
6 joined Ripple?

7 A Yes.

8 Q And how did it fit into Ripple's business when
9 you joined, recognizing that it has changed and evolved
10 over time?

11 A I don't know that I had a point of view about
12 how XRP fit into Ripple's business model when I joined.
13 I was very new to the -- well, obviously to the company
14 but I was also new to the industry. So when I joined,
15 that was part of the let's figure it out.

16 Q How does XRP fit into Ripple's business today?

17 A XRP is a digital asset that Ripple owns today
18 somewhere around 55-56 billion units of. We think about
19 how to make XRP the most trusted, the most liquid and the
20 most useful of digital assets, and we think that by
21 achieving that, that is valuable to Ripple's
22 shareholders.

23 Q What is XRP's target market or customer?

24 A I'm not --

25 Q For Ripple.

1 A Sorry, say again.

2 Q Who does Ripple see as its -- as XRP's target
3 customer?

4 A Today, Ripple's target customer are financial
5 institutions doing cross-border payments.

6 Q And when did Ripple target that group?

7 A Well, all the way back to 2015, certainly that
8 was one of a number of different possible market
9 opportunities Ripple was considering pursuing, and so we
10 over time got more and more focused on that specific
11 customer set.

12 Q Did you have any involvement in Ripple's
13 decision to focus on banks and financial institutions?

14 A Yes.

15 Q What was your involvement?

16 A I would I was the decision-maker.

17 Q And why did you decide that?

18 A I believe in a broader business context that
19 focus is paramount and if you want to achieve success,
20 you need to have very good clarity about what problem
21 you're trying to solve and how you're going to solve it.
22 When I joined Ripple, there were a number of different
23 market opportunities that the company was evaluating and
24 I was an advocate and champion of choosing one and going
25 deep in that vertical.

1 Q Why focus specifically on banks and financial
2 institutions?

3 A I thought the market opportunity, the size of
4 the market and the unique characteristics of technologies
5 that Ripple had in its -- native to its technical stack
6 aligned well with solving a financial institution
7 problems around cross-border payments.

8 Q What was the growth potential in terms of how
9 much profit the company could earn if it focused on banks
10 or financial institutions?

11 A I did not know.

12 Q Was there any other reason that you decided to
13 focus on banks and financial institutions?

14 A I mean, I suppose I would add it was my opinion
15 joining Ripple that some of the ethos and almost mantra
16 of the crypto industry was kind of an antibank,
17 antigovernment perspective, and it was my thesis that the
18 best way to impact the most people in a positive way with
19 these technologies was to work with the financial
20 institutions, not to circumvent financial institutions.
21 With that in mind, it felt like if you can work with
22 these financial institutions to deploy these technologies
23 in ways that makes them more efficient, that's good for
24 them. It's good for the industry and good for Ripple.

25 Q Did Chris Larsen have any role in the decision

1 to focus on banks and financial institutions?

2 A To be fair, I said earlier that it would have
3 been my decision. The reality is Chris was the CEO at
4 the time. I would have recommended to him that I would
5 say it ultimately would have been his decision. I think
6 internally I was certainly known as the person that was
7 championing being focused and specific in what customer
8 segment we're going after.

9 Q Prior to that decision, was the company focused
10 on several business opportunities related to XRP?

11 A I'm parsing your question a little bit by
12 saying I don't think they were focused so, no, I guess is
13 the answer to the question. I think there were multiple
14 different market opportunities. As you may know, at the
15 time the company referred to itself as Ripple Labs. I
16 felt that it was important that we not be a lab, just
17 researching and pursuing and testing, but actually to be
18 clear about let's build a product for a clear customer,
19 let's sell that product to a customer and let's get
20 people using these technologies.

21 Q Earlier we spoke a little bit about Ripple
22 Trade. At the time that you decided to focus on banks and
23 financial institutions, what was the status of Ripple
24 Trade?

25 A I can't recall.

1 Q Did Ripple decide to shut down Ripple Trade?

2 A Ripple decided to shut down Ripple Trade as
3 part of a settlement with FinCEN.

4 Q Were you involved in the decision to shut down
5 Ripple Trade?

6 A I was involved in executing the decision to
7 shut down Ripple Trade. I believe that decision predates
8 my arrival at Ripple.

9 Q Do you know who made that decision?

10 A I do not. The CEO, Chris Larsen.

11 Q Did anyone tell you why the company decided to
12 shut down Ripple Trade?

13 A Because of a settlement with FinCEN.

14 Q Was there any other reason that the company
15 decided to shut down Ripple Trade?

16 A I don't recall.

17 Q Did you understand there to be any legal risks
18 associated with Ripple Trade?

19 A In what time period?

20 Q In or around 2015?

21 MR. CERESNEY: I assume, Daphna, you're not
22 asking about privileged information here because if he's
23 talking about legal risk, he's probably talking to a
24 lawyer about that. So I just want to make sure the
25 witness understands --

1 MS. WAXMAN: Thank you.

2 MR. CERESNEY: -- that when answering that, he
3 should try stay clear of privileged territory.

4 THE WITNESS: Right.

5 BY MS. WAXMAN:

6 Q That's correct. Thank you. I don't want to --
7 please don't disclose any conversations that would be
8 privileged. And when I say privileged, conversations
9 where you are receiving advice from -- legal advice from
10 counsel.

11 A Right. Thank you for both of those
12 clarifications.

13 Can you repeat the question just so I have it
14 in my head?

15 Q Sure. Other than conversations with counsel in
16 which you received legal advice, did you understand or
17 did you have any conversations about whether there were
18 any legal risks associated with Ripple Trade?

19 A Outside of the conversations with legal
20 counsel, I can't recall.

21 Q Did you ever discuss Ripple Trade with Chris
22 Larsen?

23 A I'm certain I did.

24 Q What did you discuss?

25 A I'm sure we discussed the efficient wind-down,

1 how to stop accepting new customers, how to migrate
2 existing customers, how to deal with customer service
3 inquiries that come in, things like that. Not that
4 that's all-inclusive but as I testified earlier, I
5 believe the decision to wind down Ripple Trade predates
6 my arrival at Ripple. I'm not 100 percent sure about
7 that but I viewed one as my -- one of my early projects
8 at Ripple was to wind down Ripple Trade.

9 Q Earlier you said Ripple Trade was like an early
10 version of Coinbase, correct?

11 A I think I would have described it as analogous
12 to Coinbase. I'm not sure I would call it an early
13 version of Coinbase but analogous to Coinbase.

14 Q So it was a venue for people to buy and sell
15 XRP?

16 A That is my recollection, yes.

17 Q And could anyone buy and sell XRP through
18 Ripple Trade?

19 A I don't know for certain.

20 Q Did Ripple ever promote Ripple Trade to traders
21 or market makers or people who would speculate in XRP?

22 A I don't know.

23 Q Did you ever discuss with anybody the risks of
24 using Ripple Trade to sell XRP to speculators, traders or
25 market makers?

1 MR. SOLOMON: I guess the same qualification in
2 answering again about not getting into sensitive
3 information.

4 THE REPORTER: I'm sorry, Mr. Solomon. I could
5 not hear you. "The same qualification" --

6 MR. SOLOMON: I apologize. Subject to the same
7 qualification Mr. Ceresney just gave, Mr. Garlinghouse
8 should not be talking about any privileged communications
9 including communications with others that are not lawyers
10 where legal advice may have been discussed.

11 THE WITNESS: So my answer is outside of any
12 conversations that involved legal advice, I don't know.

13 BY MS. WAXMAN:

14 Q Okay. When you joined Ripple as COO, did
15 Ripple have a plan or a strategy on how to use or
16 distribute its XRP?

17 A When I joined, I did not know.

18 Q At any point did you come to learn whether
19 Ripple had a strategy for its XRP?

20 A Yes. I probably am -- I mean, sometimes the
21 early stage of a company, calling something a strategy
22 might be generous. I think Ripple has had the view for a
23 long time, since really inception, that we will have an
24 Internet of value and that having a highly efficient, as
25 measured by speed, as measured by cost, having a highly

1 efficient digital asset underlying that Internet of value
2 is important.

3 Q My question is specifically whether the company
4 had a plan on how to distribute its XRP holdings, and if
5 they did, at what point in time and what was that plan?

6 A I don't -- I think my testimony was that I
7 don't know that Ripple, like many companies, had -- many
8 starts-ups, has a clear strategy and a clear plan and
9 instead those -- you know, that is a journey. I think my
10 testimony was I think the strategy from the beginning of
11 the company was in order to enable an Internet of value,
12 you would need the underpinnings from a highly-efficient,
13 measured-by-speeding-cost digital asset, and XRP is,
14 particularly compared to other digital assets, much more
15 efficient.

16 So in that context, that was the strategy of
17 how do we think about XRP, how do we make it very liquid,
18 how do we make it very trusted.

19 Q What do you mean by make it very liquid?

20 A In the trading of XRP against other currencies,
21 whether they be fiat or digital.

22 Q Did the company set to monetize its XRP
23 holdings?

24 A I'm sorry, I missed part of the question.

25 Q Did Ripple set out to monetize its XRP

1 holdings?

2 MR. SOLOMON: Can you -- I'm sorry, did they
3 set out at the beginning? When he joined? At some point
4 later? I think if you could unpack that just a bit for
5 him, it would be helpful.

6 Maybe ask him was he aware that there were
7 asset sales -- that there were sales of XRP prior to his
8 joining and what was his awareness of that, which is --
9 and did he come to understand that they had a strategy in
10 terms of XRP sales going forward.

11 I just think it would be helpful to break it
12 down a little bit instead of asking really sweeping
13 question. Just whether he answers or not, hopefully.

14 MS. WAXMAN: Appreciate it.

15 BY MS. WAXMAN:

16 Q I will ask you specific questions about sales
17 but I'm curious to know whether at the outset in 2015 or
18 at any point after the company looked -- and when I say
19 monetize, I meant to make money, to sell XRP into the
20 market.

21 A When I joined the company in 2015, I was not
22 aware of that. After joining the company, I became aware
23 that Ripple was selling XRP.

24 Q And how did you learn that Ripple was selling
25 XRP?

1 A I don't recall specifically but certainly
2 through financial statements, through participation in
3 meetings and just generally getting educated about the
4 company as I was onboarded.

5 Q And sorry if I asked this but when did you
6 learn that the company was selling XRP?

7 A I don't recall specifically but shortly after
8 joining. Certainly in 2015.

9 Q And you said you learned the company was
10 selling XRP from looking at financial statements?

11 A I don't recall specifically. That would have
12 been one example of how I may have learned of that.

13 Q And at the time that the company was selling
14 XRP, did the company have revenues from any other
15 sources?

16 A In what time period?

17 Q At the time that you first learned about those
18 sales.

19 A I believe, yes.

20 Q And how much revenue was the company earning
21 from other -- from non-XRP sales?

22 A I don't recall.

23 Q At the time that you learned that XRP was
24 selling -- that Ripple was selling XRP, was it your
25 understanding that the company was relying on those

1 proceeds to fund its operations?

2 A No. The qualifier, I guess I'll proactively
3 offer here, is the company had raised capital as part of
4 a seed round, a series A round, and so the company had
5 money in the bank from a number of resources.

6 Q At any point while you were at Ripple, did you
7 come to the understanding that it was relying on XRP
8 sales to fund operations?

9 A Yes.

10 Q And when was that?

11 A I think my testimony earlier was I don't recall
12 when exactly but certainly in 2015 or shortly after
13 joining the company.

14 Q And I just want to make sure I understand and
15 I'll ask a clear question. When did the company begin to
16 rely on XRP sales to fund its operations?

17 A Well, I'm not sure we're communicating
18 effectively in that your use of the word rely, I would --
19 what do you mean, rely?

20 Q Well, could the company operate, pay its bills,
21 if it didn't receive any -- if it didn't sell XRP into
22 the market?

23 A Yes.

24 Q And what --

25 A In which time period would be helpful, but,

1 yes, the point being that as many Silicon Valley
2 companies have done, Ripple prior to my arrival and after
3 my arrival had raised venture funding from investors in a
4 seed round and a series A preferred financing and series
5 B preferred financing, and so absent revenue from selling
6 XRP, we would have invested, you know, spent -- we may
7 have spent differently but we would have continued to
8 invest to build products.

9 Q So this is how I understand it. I understand
10 it that the company had money coming from private
11 investors. The company had some revenues from non-XRP
12 products and the company had money from XRP sales. Is
13 that correct?

14 A Yes.

15 Q And how did the money -- my understanding is
16 that revenue from non-XRP products was very small.
17 Earlier you testified it was somewhere, you know, around
18 5 to 10 million for xCurrent and then around 5 million
19 from XRP, is that correct?

20 A No. I think I testified that xVia was simply
21 less than 5 to 10 million. I didn't know how much.

22 Q Well, in general, how much -- what percentage
23 of Ripple's revenues came from non-XRP products and what
24 percentage of Ripple's revenues came from XRP beginning
25 in 2015?

1 A My recollection from 2015 is that XRP sales
2 would have represented 80 to 90 percent of total revenue.

3 Q And did that percentage grow over time?

4 A It would depend on which time period we're
5 discussing but, you know, the number has been around 90,
6 95 percent in the most recent year or two.

7 Q And how did it happen that the percentage of
8 XRP sales as a proportion of Ripple's revenue grew since
9 2015?

10 A The amount of XRP grew faster than the other
11 sources of revenue. The amount of XRP sales grew faster
12 than the other sources of revenue so the percentage grew.

13 Q How did that -- did you -- did the company sell
14 more XRP in later time periods?

15 A I don't know the answer to that. I don't know.
16 But that is a knowable answer. I just don't know off the
17 top of mind.

18 Q Is there any document that would refresh your
19 memory?

20 A Yes.

21 Q What document?

22 A A financial statement from any -- 2015, 2016,
23 2017, 2018, 2019.

24 Q Okay. So you're not sure what caused the
25 increase in the XRP revenues as a percentage of Ripple's

1 total revenues?

2 MR. CERESNEY: No, I think, Daphna, the
3 confusion here is there are a number of variables
4 involving sales including the price of XRP as well as --
5 confusion in the question and the answer here is I think
6 Mr. Garlinghouse is --

7 THE REPORTER? I'm sorry. Could you lean into
8 the microphone? I'm having difficulty hearing you as
9 well. I'm sorry.

10 MR. CERESNEY: Sure. I was saying that there's
11 a number of dynamics involved in connection with the
12 sales of XRP including the price of XRP as well as the
13 volume that you're selling. And I think the confusion
14 between some of your questions and answers to Mr.
15 Garlinghouse is he is sort of weighing those different
16 variables in trying to answer your question. And so
17 maybe if you could phrase the question a little bit more
18 clearly, I think you guys would be on the same page.

19 MS. WAXMAN: Okay. Thank you. I'll try.

20 BY MS. WAXMAN:

21 Q I understand that XRP's price increased, you
22 know, during the time period from 2015 to 2017 so due to
23 the increase in price, the company's revenues from that,
24 from the sales of XRP would have grown.

25 But independent of that, did XRP sell more XRP

1 into the market over time?

2 MR. CERESNEY: When you say more XRP, you mean
3 a higher number, units of XRP?

4 MS. WAXMAN: Yes. Yes.

5 THE WITNESS: And that, as I testified earlier,
6 I don't know. As Mr. Ceresney has articulated, there's a
7 bunch of inputs that yield the outcome of how many
8 dollars came in. So if the question is did we sell more
9 units of XRP in one year versus another, I would have to
10 look at a financial statement to know the answer to that.

11 BY MS. WAXMAN:

12 Q Were you involved in the decision to sell XRP?

13 A In what time period?

14 Q In any time period.

15 A Yes.

16 Q And when were you involved in the decision to
17 sell -- in the decision for Ripple to sell XRP?

18 A Just to clarify, Ripple was selling XRP prior
19 to my arrival at Ripple. My decisions -- I was a
20 participant in our posture in the XRP markets, you know,
21 basically since I joined the company, maybe a couple, two
22 or three months after I joined the company through today.

23 Q So were you involved in the decision to sell
24 XRP into the market from the time you arrived at Ripple?

25 A Yes.

1 Q Okay.

2 A Or shortly thereafter. I don't -- as I
3 testified earlier, I don't think when I joined the
4 company, I was aware that Ripple they were selling XRP.
5 After being in the company for a while, I was aware and
6 participated in those discussions.

7 Q So at some point after you arrived at Ripple,
8 you learned that the company was selling XRP and at some
9 point you were involved in those sales. And my question,
10 what was your specific involvement?

11 A My recollection -- and I don't know when
12 exactly this started but we, you know, at some point we
13 had a regular meeting that we called the XRP markets
14 meeting that had a number of different participants in it
15 and I participated in that meeting discussing the state
16 of the XRP markets and Ripple's posture within that as it
17 related to selling XRP.

18 Q And how often were those meetings?

19 A At some point they became weekly.

20 Q Do you recall at what point they became weekly?

21 A I do not.

22 Q And who participated in those meetings?

23 A That list evolves over time. Certainly myself,
24 Chris Larsen, legal counsel. Let's see, I think almost
25 always probably the CFO or equivalent if the position may

1 not have existed at various points in time. But those
2 are a handful of the names.

3 Q Did Chris Larsen participate in those meetings
4 after he stepped down as CEO?

5 A Yes.

6 Q Do those meetings still occur today?

7 A Yes.

8 Q Does Chris Larsen still participate today?

9 A On occasion, yes.

10 Q Does he regularly participate in those
11 meetings?

12 A I mean, I know it seems like a strange answer
13 but I don't know only because he typically joins by phone
14 and sometimes I don't know if he's on or not.

15 Q Were there any written materials that you
16 reviewed in connection with those meetings?

17 A Yes.

18 Q And what written materials?

19 A Generally speaking, there was a report sent the
20 night before that would outline kind of an agenda and
21 review the activity in the XRP markets again at large as
22 well as Ripple's participation in them.

23 Q What was discussed at those meetings?

24 A Kind of as a general matter there were a lot of
25 meetings, so --

1 MR. SOLOMON: Just the same proviso. You said
2 there was legal counsel there?

3 THE WITNESS: Right.

4 MR. SOLOMON: That's fine if you talk about the
5 nature of the discussions but --

6 THE REPORTER: I'm sorry, I can't hear you, Mr.
7 Solomon.

8 MR. SOLOMON: I'm very sorry. He had mentioned
9 that there was legal counsel involved in these meetings.
10 It's fine to talk about the subject matter of the
11 meetings and general discussion topics of the meetings.
12 I just wanted to caution him that to the extent he
13 remembers getting legal advice during those meetings,
14 just stay away from that topic.

15 THE WITNESS: I think at the most macro level,
16 there were, you know, simplistically three general agenda
17 items: One, what's going on in the crypto markets at
18 large, what activity we're seeing in the crypto markets,
19 what are the drivers in the crypto markets at large; two,
20 within that context, what's going on with XRP; and three,
21 what is Ripple's posture in terms of selling XRP, how
22 much had been sold, things like that.

23 BY MS. WAXMAN:

24 Q You said what was going on in terms of XRP.
25 Are you talking about XRP's price or volume in the

1 market?

2 A Yes, both, and others.

3 Q What others?

4 A We might discuss what other companies are doing
5 things in the XRP market, what success they may or may
6 not be having but certainly the volume -- I mean, to the
7 extent our goal, as I mentioned earlier, was to drive
8 liquidity, trust and utility of XRP, we would have
9 thought about all three of those in various ways.

10 Q Were there any decisions made at that meeting?

11 A Yes.

12 Q What decisions were made?

13 A I mean, there have been hundreds of those
14 meetings in my five and a half years, and so I would
15 hesitate to try to answer that thoroughly.

16 Q During that meeting, did the company make
17 decisions regarding its selling posture?

18 A Yes.

19 Q Who made those decisions?

20 A There typically would be a recommendation from
21 someone on the team and then, at the end of the day, I
22 would imagine typically we would move forward with that
23 recommendation. But I suppose at the end of the day,
24 when Chris was CEO, it would have been ultimately his
25 decision and when I became CEO, it ultimately became my

1 decision.

2 Q And what recommendations were provided during
3 the meeting with respect to Ripple's selling posture of
4 XRP?

5 A I mean, as I mentioned earlier, there literally
6 have been hundreds of those meetings, so if you could
7 maybe more narrowly -- I don't know, literally hundreds
8 of decisions that may have been made and so I don't know
9 how to answer that.

10 Q During those meetings, did you ever discuss
11 whether to increase Ripple's -- the amount of XRP that
12 Ripple sold into the market?

13 A Yes.

14 Q And why would Ripple increase the amount of XRP
15 that it sold into the market?

16 A To the extent that our goal was to be a non --
17 we wanted to not impact the market and we would
18 definitely have evaluated, to the extent, you know, do we
19 think there is an impact from Ripple in the market, and
20 that might be an input into our posture.

21 Q When you say impact the market, what are you
22 talking about?

23 A I'm talking about the XRP market.

24 Q Are you talking about XRP's price in the
25 market?

1 A I'm talking about the price activity, volume
2 activity. We wanted to be -- and as you're probably
3 aware, you know, 99.X percent of all XRP trading doesn't
4 involve Ripple and we wanted to make sure that our
5 participation in the market was constructive and not
6 harmful to the market.

7 Q What do you mean by constructive and not
8 harmful to the market?

9 A Additive to liquidity and not impacting the
10 price.

11 Q When you say not impacting the price, are you
12 talking about causing a price decrease?

13 A Or increase.

14 Q Or increase. Why did you not want to impact
15 the price either up or down?

16 A I think we have always viewed that having a
17 healthy XRP market is important to our ability to build
18 the products we want to build, to have efficient markets.
19 So we did not want to be a -- we did not want to be -- we
20 don't want to be in a position where we're impacting the
21 market.

22 Q Did Ripple have an interest in seeing the
23 higher XRP price?

24 A Ripple's goal has been to drive liquidity in
25 the market and solving customer problems. Does -- I

1 mean, and I've said to the SEC previously, I won't shy
2 away from the fact that Ripple owns a lot of XRP and as
3 capitalists, we benefit if the price of XRP goes up.

4 Q And how does Ripple benefit?

5 A We own a lot of XRP. If the price goes up, the
6 value of the assets we own goes up.

7 Q So Ripple's valuation to its shareholders is
8 increased?

9 A Well, there's a lot of inputs that impact the
10 valuation to shareholders, but I -- well, I don't know
11 that I can say authoritatively that what you said is
12 true, that -- it would be one of many inputs.

13 Q If the price of XRP increased and Ripple sold
14 that XRP into the market, could it get more money from
15 its XRP holdings?

16 A Yes.

17 Q So is that one benefit of the price going up?

18 A Yes.

19 By the way, this moment of pause, at some point
20 I need to have a bio break.

21 Q Okay.

22 MR. SOLOMON: How much longer did you want to
23 go before lunch? Did you want to go until about 12:30
24 or --

25 MS. WAXMAN: That works for me. Does that work

1 for everybody else?

2 THE WITNESS: If we're going to 12:30, I
3 probably need to take a two-minute break.

4 MR. SOLOMON: Absolutely.

5 THE WITNESS: I can go a couple more minutes.

6 MR. SOLOMON: But did you want to continue for
7 another half an hour before we take the lunch break?

8 MS. WAXMAN: I would like to if that's okay.
9 So can we take a two-minute break and let him use the
10 rest room and then go back on the record?

11 MR. SOLOMON: Absolutely.

12 MS. WAXMAN: Okay.

13 THE WITNESS: We'll be right back.

14 MS. WAXMAN: We're off the record at 11:54.

15 (A brief recess was taken.)

16 MS. WAXMAN: We're back on the record at 12:00
17 p.m.

18 BY MS. WAXMAN:

19 Q Mr. Garlinghouse, while we were off the record,
20 did you have any substantive conversations with the SEC
21 staff?

22 A No.

23 MS. WAXMAN: Counsel, will you please confirm?

24 MR. SOLOMON: Confirmed.

25 BY MS. WAXMAN:

1 Q I wanted to ask you a little bit about xRapid,
2 what is now known as on-demand liquidity. I may use
3 these terms interchangeably if that's okay with you.

4 A Yes, that's fine. Thank you.

5 Q And what is xRapid?

6 A XRapid is a product we, Ripple, brought to
7 market to mitigate the need for financial institutions to
8 pre-fund in a destination currency yet still make
9 payments in real time to those other countries or
10 currencies.

11 Q When did Ripple start to develop xRapid?

12 A A little bit like xCurrent, it has been, in one
13 way or another, you know, part of a vision of what we can
14 do to solve payment problems from, frankly, I think,
15 before I was there. Productizing it was much later and,
16 you know, really probably not actually productized in the
17 market until 2018, I think.

18 Q Does October/late 2018 sound right?

19 A Yeah, although I think perhaps we had beta or
20 kind of what we would call alpha or beta tests or
21 customers prior to that, but that sounds right.

22 Q When did Ripple start to pilot xRapid?

23 A My pause is only confusion. I think that's
24 what we were just -- well, I thought I was just answering
25 that question. Maybe I'm -- when I talk about an alpha

1 or beta, I'm talking about pilots. So sometime in 2018
2 would have been when we first started to pilot that.

3 Q And when was xRapid deployed for commercial
4 use?

5 A I don't recall exactly but not long after that
6 time period.

7 Q Was it six months?

8 A I would guess -- well, if we measure October as
9 the starting point, I would guess it was less than six
10 months.

11 Q Well, I'll another question. How long -- how
12 many months was Ripple piloting xRapid?

13 A I don't recall.

14 Q Can you walk me through an ODL transaction?

15 A Sure. Well, to -- where would you like me to
16 start?

17 Q From the beginning. That's always a good
18 place.

19 A I guess the reason I'm asking, I mean, you
20 know, there is the technical, like here is how an ODL
21 transaction persists versus how we sell to a customer.
22 If we start with how we sell to a customer and then the
23 customer onboards, or do we start with the customer
24 exists, you're holding a dollar and you're getting a peso
25 out of that?

1 Q Why don't you start at the very beginning. I'm
2 not really interested in, you know, the onboarding of
3 customers. I want to understand what your understanding
4 is of the mechanics of an ODL transaction.

5 A Okay. Perfect. Thank you.

6 So if you are holding a dollar, United States
7 dollar, and you would like to transfer that into a
8 Mexican peso, you would sell the dollar on an exchange
9 such as Bitstamp, you would use the dollar to buy an
10 equivalent units of XRP. You would then be holding XRP.
11 You would then move the XRP across the XRP Ledger to, in
12 this case, Bitso in Mexico. You would sell the XRP and
13 buy a corresponding number of units of Mexican pesos.

14 By doing those series of steps, you've gone
15 from holding good liquid funds of dollars to good liquid
16 funds of Mexican pesos in a financial institution, a
17 regulated financial institution in Mexico, which then can
18 be moved intra Mexico.

19 Q By using xRapid, does the customer avoid
20 having, you know, the specific exchanges on the sending
21 exchange and the receiving end, receiving exchange?

22 A I'm sorry, could you ask the question again? I
23 didn't --

24 Q You said there is an exchange -- my
25 understanding is that there is a sending exchange and a

1 receiving exchange involved in an ODL transaction. Is
2 that correct?

3 A That's correct.

4 Q Is that your understanding as well?

5 A Unless you were doing XRP origination, which we
6 do today, that answer is correct.

7 Q Let me take a step back. The customer that
8 uses XRP or ODL, what are the costs that are borne by the
9 customer as part of their -- you know, as part of using
10 XRP in connection with xRapid?

11 A I don't know that I can answer that precisely
12 in that which costs are absorbed by Ripple and which
13 costs are absorbed by a customer isn't -- even that isn't
14 a static thing, so --

15 Q That's not my question. The question is, what
16 costs are involved in an ODL transaction?

17 A Sorry. Well, you would have the costs
18 associated with funding in a USD account at for, example,
19 Bitstamp. You would have the exchange costs of Bitstamp
20 going from USD to XRP. You know, arguably you would have
21 very, very de minimis costs of moving the XRP, and then
22 you would have the costs associated with -- at the
23 terminating exchange, I can't remember your choice of
24 words but at an endpoint exchange of converting the XRP
25 back to fiat, in this case, Mexican peso.

1 Q So there are costs at both exchanges. Are
2 there any other costs?

3 A Not that I'm aware.

4 Q And how is the xRapid rate determined for
5 customers who are using xRapid for cross-border payments?

6 MR. SOLOMON: What do you mean by xRapid rate?

7 BY MS. WAXMAN:

8 Q My understanding is that when someone uses
9 xRapid, there is a rate that they're quoted for the
10 transaction. How is that quoted rate determined?

11 A The quoted rate is looking at the exchange
12 price between XRP and USD, and XRP and Mexican peso, so
13 that you have a clearing price to go dollar-peso.

14 Q And is the quoted rate the rate that is
15 provided?

16 A To my knowledge, yes.

17 Q Is the quoted rate the same as the executed
18 rate?

19 A I don't know.

20 Q Do you know what I'm talking about when I talk
21 about the executed rate?

22 A I'm assuming you mean the rate that -- as a
23 customer says, I want to send this money, here's a quoted
24 rate and then there's -- okay, the transaction has now
25 completed, there is an executed rate. That is my

1 assumption of what you mean by that.

2 Q Right. So my understanding is a customer at
3 the initiation of a transaction, there is a quoted rate
4 and then the transaction takes three seconds and then
5 there is an actual executed rate.

6 A Yes. It would typically take longer than three
7 seconds. The part on -- moving across the XRP Ledger
8 would take three to four seconds, but you also have the
9 time it takes to do trades on both ends of the exchange
10 which cumulatively would add up to more than three or
11 four seconds.

12 Q And how is the executed rate determined?

13 A By adding up the -- just doing the math between
14 here is the actual -- you might have had a -- okay, here
15 is the rate. The executed rate is just the reality of
16 here is how much it costs to move those funds from point
17 A to point B.

18 Q And is there ever a difference between the
19 quoted rate and the executed rate?

20 A I expect, yes.

21 Q And how often is there a difference between the
22 quoted and executed rate?

23 A I don't know.

24 Q What causes the difference between the quoted
25 and the executed rate?

1 A I suspect fluctuations in the price of or the
2 exchange rate between dollar and XRP and dollar and peso.

3 Q Does Ripple guarantee the quoted rate for the
4 customer?

5 A In some cases, I believe, yes.

6 Q Why do you say in some cases? What does it
7 depend on?

8 A A contract.

9 Q Does Ripple provide -- guarantee the quoted
10 rate for some of its customers?

11 A To my knowledge, yes.

12 Q Does it provide a guarantee for all of its
13 customers?

14 A I don't believe so.

15 Q Why does Ripple provide that guarantee to its
16 customers? Granted, I understand it's not all of its
17 customers but some of its customers.

18 A I'm not sure if it's all of its customers, just
19 to clarify, but why do we do that? Well, we want to see
20 market adoption and to help customers -- to help mitigate
21 risk for the early participation in this product.
22 Reducing potential barriers to adoption helps customers
23 get enthusiastic about getting involved.

24 Q How does the -- what is the value proposition
25 for banks and payment providers and other financial

1 institutions to use XRP in connection with xRapid?

2 A The value proposition to financial -- the
3 primary value proposition to financial institutions to
4 use on-demand liquidity, formerly xRapid, is to reduce
5 the need to pre-fund in many, many jurisdictions or many,
6 many currencies around the world and allowing that
7 working capital to not be sitting idle in what are
8 generally referred to as nostro/vostro accounts.

9 Q Are there any cost savings from using XRP in
10 connection with xRapid?

11 A Yes.

12 Q What cost savings?

13 MR. CERESNEY: Do you mean cost savings from
14 using XRP and xRapid or cost savings from xRapid versus
15 other means?

16 BY MS. WAXMAN:

17 Q What are the cost savings associated with using
18 XRP as part of the xRapid transaction?

19 A So maybe just to clarify so we're all on the
20 same page, XRP is in every xRapid or on-demand liquidity
21 transaction.

22 Q That's my understanding as well.

23 A Okay. I guess what I'm not following in your
24 question, I think what I heard you ask is what are the
25 cost savings of using XRP in an xRapid transaction.

1 Q I mean, since every xRapid transaction involves
2 using XRP, I guess the question is what are the cost
3 savings associated with using xRapid?

4 A Right. Okay. Got it.

5 MR. CERESNEY: I just want to make sure we're
6 on the same page again.

7 THE WITNESS: So I think my testimony then is
8 the primary cost savings associated -- in my judgment,
9 the primary cost savings, the primary benefit of
10 financial institutions using xRapid, now known as
11 on-demand liquidity, is mitigating the need to pre-fund
12 and use working capital and to park that capital in many
13 currencies around the world and have that as dormant or
14 idle working capital.

15 BY MS. WAXMAN:

16 Q Are there any other cost savings from using
17 xRapid other than savings associated with pre-funding?

18 A Yes.

19 Q What are they?

20 A It depends on what currency corridors we're
21 talking about because that would impact the efficiency.
22 For example, we don't prioritize dollar/yen as a currency
23 corridor. The efficiency in the traditional markets
24 between dollar and yen are pretty good. By contrast, if
25 you were to pick a less liquid, you know, somewhat -- not

1 totally randomly but somewhat randomly choosing
2 Australian dollar to Philippine peso, that is a less
3 liquid corridor and less efficient corridor, and so the
4 cost savings of using a product like xRapid might be more
5 significant relative to traditional rails. Rails --
6 traditional steps.

7 As you may know, if you -- today we go from
8 Australian dollar to Philippine peso, you're probably
9 going Australian dollar to U.S. dollar to Philippine
10 peso. There's more steps involved. You have more
11 exchange rates involved. There's more fees involved and
12 less efficiency of that corridor is not as good as
13 dollar/yen, to compare it to my earlier contrast.

14 That's a very long-winded way of saying to
15 answer your question depends a lot on which currency pair
16 we're talking about.

17 Q For some currencies, is it more -- do you have
18 cost -- is it more cost-effective to use xRapid than
19 traditional rails?

20 A That is my understanding, yes.

21 Q And are those cost savings related to
22 pre-funding?

23 A One of the cost savings from xRapid is
24 mitigating the need to pre-fund.

25 Q And are there cost savings related to FX costs?

1 A Depending upon the corridor, yes.

2 Q And which corridors provide cost savings?

3 A I don't have that information at the top of my
4 head.

5 Q Has Ripple ever quantified the cost savings
6 from using xRapid?

7 A Yes, Ripple has done analyses associated with
8 the cost savings of using xRapid.

9 Q And what analyses has Ripple done to quantify
10 the cost savings?

11 A We have -- I mean, maybe I -- if you could
12 clarify the question only that I can't regurgitate the
13 reports top of mind.

14 Q How much did Ripple say that customers could
15 save from using xRapid?

16 A I don't recall exactly what we have said in
17 that regard, but I know that we have published reports
18 with customers and customers have commented about their
19 savings.

20 Q Has Ripple ever publicly claimed that xRapid
21 saves customers 40 to 70 percent in costs?

22 A I don't know. I think that is possible, yes,
23 although I'm not sure that that's something that Ripple
24 claimed but I think it's something that a customer has
25 claimed.

1 Q Have you ever claimed that xRapid saves
2 customers 40 to 70 percent in costs?

3 A I don't recall.

4 Q You said that Ripple has done some analysis
5 related to the amount of cost savings. Who at Ripple has
6 done this analysis?

7 A I don't know that there is a single name behind
8 that but certainly a number of groups would be involved
9 in that ranging from marketing, I would imagine sales
10 might have some input in that and finance to make sure
11 that we're -- there is a data team. I don't know that
12 there is one person, but understanding the efficacy of
13 the product with our customers is obviously important so
14 you have a number of different groups involved.

15 Q And when do people start -- during what time
16 period did people at Ripple do that analysis?

17 A Contemporaneously with the launch of those
18 products, of the xRapid product.

19 Q Did you review the results of that analysis at
20 any point in time?

21 A I don't recall, but I would imagine I did.

22 Q And what were the results of the analysis?

23 A I don't recall.

24 Q Did the analysis include that xRapid saves
25 customers money?

1 A I believe so.

2 Q Did it provide a quantifiable amount of cost
3 savings?

4 A I believe so.

5 Q And what was that amount?

6 A I don't know.

7 Q Was it in the range of 40 to 70 percent?

8 A I don't recall.

9 Q And the analysis that was provided, was that
10 written or oral?

11 A I would imagine that it was written.

12 Q And was that analysis discussed with other
13 people at Ripple?

14 A I don't recall.

15 Q Did that analysis take into account payments
16 that Ripple provided customers in connection with their
17 use of xRapid?

18 A I don't know.

19 Q Does Ripple charge any fees for its xRapid
20 product?

21 MR. CERESNEY: You mean for the actual
22 transactions or do you mean like the software product?

23 BY MS. WAXMAN:

24 Q I'll ask a different question.

25 Does Ripple receive any revenues from the

1 xRapid product?

2 A I believe that typically in onboarding an
3 xRapid customer, we might have some small onboarding, you
4 know, fees of getting people launched, but relatively de
5 minimis.

6 Q How does Ripple make money from the xRapid
7 product?

8 A Well, I mean, as you were just asking, to the
9 extent we are charging fees for integration or what have
10 you, there would be some de minimis amount of revenue
11 there. Ultimately we think about the value creation of
12 xRapid as driving the liquidity in the XRP markets.

13 Q I'm not sure I understand your answer. How
14 does Ripple make money from xRapid, if at all?

15 A We make de minimis amounts of money from xRapid
16 directly.

17 Q Does Ripple benefit from xRapid indirectly?

18 A I don't know.

19 Q Other than xRapid, does Ripple promote any
20 other product that uses XRP?

21 A No. I mean -- no.

22 Q Is it your testimony that you don't know what
23 other benefits the company gets from its xRapid product?

24 MR. CERESNEY: Are you talking about current
25 benefits as opposed to future?

1 BY MS. WAXMAN:

2 Q At any time.

3 A Yes, that is my testimony.

4 Q Does xRapid -- does use of xRapid increase
5 demand for XRP?

6 A Not to which I'm aware, no.

7 Q Why not?

8 A If you go back to the discussion we had about
9 the mechanics of how an XRP -- an ODL transaction happens
10 through XRP, you're creating demand and supply kind of in
11 lockstep. And so in some manners, it's neutral to supply
12 and demand.

13 Q Are you talking about on a per-transaction
14 basis?

15 A Yes.

16 Q I'm talking overall, was there an understanding
17 that increasing ODL volume would increase demand for XRP?

18 A No.

19 Q Did anyone at Ripple understand that an
20 increase in ODL volume would cause an increase in XRP
21 demand?

22 A Not of which I'm aware.

23 MR. SOLOMON: Daphna, we're getting close to
24 12:30. I don't know whether this is a good stopping point
25 or --

1 MS. WAXMAN: Just a few more minutes.

2 BY MS. WAXMAN:

3 Q Why did Ripple promote xRapid? You said it
4 received de minimis revenues from the product itself, but
5 I don't understand why the company would continue to sell
6 and promote the product?

7 A As I testified earlier, one of the overarching
8 goals for Ripple has been to drive liquidity and trust
9 and utility of XRP. In this case, xRapid, now known as
10 On-Demand Liquidity, certainly drives the liquidity of
11 XRP and increases liquidity of XRP between Mexican peso
12 and XRP and dollar and XRP, as described.

13 It's my belief that the more we are successful
14 over a long arc of time in driving liquidity of XRP, the
15 better that is in driving value across the XRP ecosystem.

16 Q When you talk about value, what do you mean?

17 A Value comes in various shapes and sizes. You
18 know, the value is in the savings to a customer. You
19 know, there is value to a xRapid or On-Demand Liquidity
20 customer not needing to pre-fund. There is -- so, I
21 mean, the holistic view of what derives value.

22 Q When you talk about value, are you referring to
23 XRP's price in the market?

24 A That is one factor of what -- price is one
25 measure of value.

1 Q What role do market makers play in connection
2 with xRapid?

3 A One important element of xRapid as we've talked
4 about is liquidity and -- sorry, xRapid or On-Demand
5 Liquidity. One important aspect is liquidity and to the
6 extent we are trying to send payments through On-Demand
7 Liquidity into another currency using XRP where there
8 isn't liquidity, then we have a problem in solving that
9 customer problem. We would be challenged to solve that
10 customer problem.

11 Of course the more liquid that currency pair
12 is, the tighter the spread and the tighter the spread,
13 the more efficiency in the pricing to a customer, quote
14 versus execution. So Ripple has partnered with market
15 makers in a number of different currencies to help make
16 sure as we bring customers on, to make sure that those
17 markets are as liquid as possible and the pricing is as
18 efficient as possible.

19 Q Do the market makers provide services to
20 tighten spreads?

21 A That's said very well.

22 Q And are they tightening spreads on receive
23 exchanges?

24 A Yes.

25 Q And did Ripple enter into agreements with

1 market makers in connection with these services?

2 A In connection with which services, On-Demand
3 Liquidity?

4 Q Yes.

5 A Yes.

6 Q And were you involved in negotiating or
7 approving those agreements?

8 A Was I involved in negotiating those agreements?
9 No. Was I involved in approving those agreements? Yes.

10 Q And what were the terms of those agreements?

11 A I don't know.

12 Q Did they involve a flat fee for services?

13 A Some do, yes.

14 Q Do some involve variable fees?

15 A Yes.

16 Q And what are those variable fees?

17 A I don't know top of mind.

18 Q Do the market makers stand ready to purchase
19 XRP in exchange for a fiat on receiving exchanges?

20 A Yes.

21 Q Is that one of the services that you contract
22 with them for?

23 A Yes.

24 Q Is there sufficient liquidity on ODL receive
25 exchanges absent, you know, the presence of market

1 makers?

2 A Depends on which corridor we're talking about,
3 which currency pair we're talking about, but to my
4 knowledge, the most consequential one of those is Mexican
5 peso and no is the answer.

6 Q So what would happen if market makers were not
7 engaging in these services?

8 A You wouldn't have the liquidity in the exchange
9 to complete customer -- ODL customer transactions.

10 Q So xRapid would not function properly?

11 A Correct.

12 Q The transaction could not be completed because
13 there would be no person who would be willing to buy XRP
14 in exchange for the local fiat currency?

15 A Actually, I would not say that. What you would
16 probably have is very wide spreads, and you would
17 actually reduce the efficiencies of these markets. And,
18 you know, your question I think was you would have no
19 buyer -- I think what you would find is you would have a
20 buyer at some price but it would actually decrease the
21 efficiency of the market to not have market makers there.

22 Q Would that result in more costs for Ripple in
23 connection with the xRapid product? So earlier we talked
24 about the fact that Ripple pays guarantees for certain
25 rates. So would the lack of market makers, you know, make

1 the xRapid product more costly for Ripple?

2 A What it would probably mean is we would just
3 dramatically slow the growth and usage of the products
4 such that the volume was commensurate with the available
5 liquidity. So that would dramatically constrain our
6 ability to grow until liquidity grew more naturally.

7 Liquidity is growing naturally in these
8 markets. The demand for On-Demand Liquidity is growing
9 faster than that and in some cases, as I think we've said
10 publicly and certainly you're aware of, we have actually
11 throttled the demand for On-Demand Liquidity because
12 liquidity in markets is not ready to handle that level of
13 volume.

14 Q Do you know what I mean when I talk about order
15 flow imbalance?

16 A Conceptually, yes.

17 Q Is there an order flow imbalance with XRP ODL
18 order flow?

19 A I don't know.

20 Q Is the order flow one-sided? In other words,
21 are there more people sending money to Mexico than back,
22 you know, than people sending money from Mexico to the
23 United States?

24 A Is the question whether there is a remittance
25 order flow imbalance between dollar and peso?

1 Q Yes.

2 A Yes.

3 Q Does that create any issues for the xRapid
4 product?

5 A No, not really.

6 Q Why not?

7 A What we care about with xRapid product, is
8 there liquidity between Mexican peso and XRP and maybe --
9 in this case, dollar and XRP.

10 MR. SOLOMON: Daphna, sorry, I'm just going to
11 interject again. Are you sort of winding up?
12 Otherwise -- I don't have to go too long on an empty
13 stomach without a break.

14 MS. WAXMAN: No problem. I have a couple more
15 questions about market makers and then we can take a
16 break.

17 MR. SOLOMON: Thank you.

18 BY MS. WAXMAN:

19 Q Did Ripple provide fiat loans to market makers?

20 A Yes.

21 Q What was the purpose of the fiat loans?

22 A To provide working capital -- well, I mean,
23 maybe -- I don't know exactly.

24 Q Do you have a general understanding of the
25 purpose of the loan?

1 A To provide working capital for them to have
2 liquidity in a market.

3 Q How does the market maker use the loan?

4 A I don't know exactly.

5 Q Is the market maker using the loan to purchase
6 local fiat currency which they could subsequently sell
7 for XRP on the receive end of an ODL transaction?

8 A I expect, yes.

9 Q And where does the market maker get the local
10 fiat?

11 A I don't know.

12 Q Does it use traditional rails to exchange --

13 A I --

14 Q -- to get the local fiat?

15 A I don't know how they're sourcing the local
16 fiat.

17 Q Do they use traditional brokers to exchange, to
18 get the local fiat that they're going to sell in exchange
19 for XRP?

20 A I don't know.

21 Q Does Ripple loan market makers XRP?

22 A Yes.

23 Q And why does it loan XRP to market makers?

24 A To provide -- I mean, not -- dissimilar than
25 why -- we would provide loans in fiat, provide balance

1 sheet capabilities for market makers to provide liquidity
2 between XRP and fiat currency pairs.

3 Q Do you have a more specific understanding of
4 the purpose of the XRP loans?

5 A No.

6 Q How much does the xRapid product cost Ripple
7 overall?

8 A I don't know.

9 Q We spoke about costs related to market makers.
10 We spoke about what costs does it incur related to
11 customers. We spoke about guarantees, but does Ripple
12 incur any other costs related to xRapid in relation to
13 customers?

14 A Yes.

15 Q What costs?

16 A We employ numerous people that build, support,
17 and otherwise enable On-Demand Liquidity to function, as
18 one example.

19 Q Sorry. I'll be more specific. What does
20 Ripple pay to customers to use xRapid?

21 A Oh, are you asking about xRapid -- sorry,
22 On-Demand Liquidity incentives?

23 Q I understand that that's one of the payments or
24 one of the costs associated with xRapid. Are there other
25 costs other than incentives?

1 A Well, there's market maker costs. You know,
2 there's -- you know, I'm trying to think. There is
3 certainly incentive costs, market maker costs. I think
4 I'm forgetting what other costs are built into our
5 analysis of how we look at that, but I think that gives
6 you a pretty good picture.

7 Q Does Ripple provide rebates or guarantees to
8 customers?

9 A I would lump that into the incentive picture.

10 Q But are those distinct, the rebates and the
11 incentives? Are those different payments?

12 A I guess I maybe just simplistically think about
13 them as, to the extent it's a rebate or incentive, it's a
14 payment to a customer and so I think about them in the
15 same bucket.

16 Q And are those payments meant to subsidize
17 customers' costs?

18 MR. SOLOMON: Hey, Daphna, it seems that we've
19 moved off market makers at this point. I really think it
20 is time we take a break.

21 MS. WAXMAN: I just want him to answer this
22 question.

23 THE WITNESS: Go ahead. Please repeat the
24 question.

25 BY MS. WAXMAN:

1 Q Are the payments to customers meant to
2 subsidize their costs?

3 A The payments to customers are meant to
4 incentivize activity on the network, activity -- I think
5 any time you're starting a network, you're trying to have
6 a flywheel start moving and, as I described earlier, the
7 more liquidity going into a market, the tighter the
8 spreads you're going to see exist.

9 Before there is any liquidity, you need to
10 jumpstart that flywheel. And so, as is the case with
11 many other payment network types of players, Ripple has
12 used incentives to get that flywheel started.

13 Q Do the incentives play any role in connection
14 with -- play any role in subsidizing costs?

15 A I mean, I think yes.

16 Q How?

17 A Incentives -- well, incentives by definition is
18 an offset to a cost. And to the extent you're giving
19 someone money -- I guess I'm not -- I certainly don't
20 want to be argumentative. I'm not tracking the question
21 exactly.

22 MS. WAXMAN: That's fine.

23 It's 12:44. Why don't we take a lunch break.

24 Matt, is 45 minutes okay?

25 MR. SOLOMON: Yes, that would be just fine.

1 MS. WAXMAN: We'll come back at 1:30. We're
2 off the record. Thank you.

3 (Whereupon, at 12:44 p.m., a luncheon recess
4 was taken.)

5 A F T E R N O O N S E S S I O N

6 MS. WAXMAN: It's 1:33. We're back on the
7 record.

8 BY MS. WAXMAN:

9 Q Mr. Garlinghouse, while we were off the record,
10 did you have any conversations with the SEC staff?

11 A No.

12 MS. WAXMAN: Counsel, will you please confirm?

13 MR. CERESNEY: Yes, we can confirm.

14 MS. WAXMAN: Counsel, did you want to make a
15 statement on the record?

16 MR. SOLOMON: Yeah, just a point of
17 clarification. It's not for me to make a statement, Mr.
18 Garlinghouse will.

19 But there were a series of questions and one
20 about confusion between XRP and Ripple, and you asked Mr.
21 Garlinghouse a series of questions over a time about that
22 confusion and I think it might be helpful to you if he
23 just gives you an answer specifying the different time
24 periods, because I think that was left quite ambiguous.

25 And the second thing was because, again, there

1 were very broad questions and he was giving sort of a
2 very general answer was with respect to the ODL product,
3 you were asking about that product's profitability now,
4 and I think that obviously he has a different view of
5 what the profitability may be down the line and I think
6 it would be useful for you to hear just a complete
7 narrative on that so you have a full and accurate answer.

8 So I would like to just give him an opportunity
9 to address those things. And obviously if you have
10 follow-up questions following that, you should ask him.

11 Go ahead.

12 THE WITNESS: So I'll do those in reverse
13 order.

14 The way I was interpreting the set of questions
15 about ODL, I think you were asking, well, how do we
16 charge, how does anybody go about creating value around
17 that. I suppose one of the -- depending on your
18 perspective -- blessings and curses of being in Silicon
19 Valley is you're always thinking about where the world is
20 going and willing to forgo short-term benefit for
21 long-term value creation.

22 When I think about ODL, I don't spend as much
23 time thinking about, hey, how much are we charging on a
24 per customer basis today. As we discussed, it's de
25 minimis. What I think about is if we are successful in

1 driving potentially trillions of dollars in cross-border
2 flows through ODL, how we price and how we take advantage
3 of that as a company in years 5 through 10 through 15 I
4 think are very hard to predict and, you know, I think
5 part of the journey of being an entrepreneur in Silicon
6 Valley is letting the journey go. And if you're in a
7 position of strength, then you're able to monetize that
8 in the future.

9 The best example maybe I can point to, for
10 many, many years Google had zero monetization engine but
11 was the best search engine out there, and obviously it
12 became the de facto search engine of the Internet. And
13 then they started to monetize that and obviously the rest
14 of the story I don't think I really need to tell.

15 I'll pause on that one and then go to the other
16 I think potential point of confusion.

17 MR. SOLOMON: Do you have any follow-up
18 questions on that, Ms. Waxman?

19 MS. WAXMAN: I do not.

20 THE WITNESS: The second thing I think is worth
21 clarifying because I think maybe I created confusion, I
22 do think without a doubt there has been, historically, an
23 immense amount of confusion between what is Ripple and
24 what is XRP. I think that has gotten dramatically better
25 over time because Ripple has sought to clarify that

1 consistently over a long period of time. I think it was
2 three -- I used the example of CoinMarketCap and I think
3 it was over three years ago that we were successful in
4 getting them to switch, and they, as an important
5 indicator, have helped clarify that over time. And I
6 think we're in a much better place today about the
7 understanding of what is Ripple and what is XRP than
8 where we were, you know, five years ago when I joined the
9 company.

10 BY MS. WAXMAN:

11 Q Okay. Thank you very much. I don't have any
12 follow-up questions.

13 A Okay.

14 Q Did Western Union pilot xRapid?

15 A Yes.

16 Q And when did they pilot xRapid?

17 A I would guess around two years ago. By the
18 way, I also, just as a small -- as we talked about
19 earlier how we define pilot versus a beta versus a test,
20 I think are all a little bit amorphous, but for --
21 Western Union definitely did a test of an early version
22 of the xRapid product.

23 Q Did you get any feedback from Western Union in
24 connection with their test?

25 A The only feedback I'm aware of is what I read

1 publicly. The CEO of Western Union I believe is on
2 record saying that they -- the usage of what we now call
3 ODL was -- there were not cost savings and it matched
4 their existing -- you know, it was equal to their
5 existing Treasury efficiency.

6 Q Did you ever learn from anyone from within the
7 company about feedback from Western Union?

8 A From within Western Union or from within
9 Ripple?

10 Q Either. You said that you had heard -- you
11 knew about public feedback that Western Union had made
12 about the pilot. But my question is, did you hear -- did
13 you have any other -- did you hear about any feedback
14 from Western Union from inside Ripple or directly from
15 Western Union?

16 A No, I'm not aware that I received any -- I
17 don't recall receiving any feedback. I think the
18 internal commentary based upon Hikmet, the CEO of Western
19 Union's public, statements, was actually one that felt
20 like, okay, if a beta product of On-Demand Liquidity had
21 matched the Treasury efficiency that they had developed
22 over decades, we actually felt like that was a huge win
23 that he would say we had, you know, that matched what
24 they were already doing so they didn't see -- you know, I
25 viewed that as a very positive statement for us.

1 Q So was it your understanding that they didn't
2 incur any cost savings because the xRapid product matched
3 their already existing efficiencies?

4 A That's my understanding.

5 Q Not because using the product was more
6 expensive?

7 A I'm not sure I'm --

8 Q Strike that.

9 A All right.

10 Q What is MoneyGram?

11 A MoneyGram is a publicly traded remittance
12 company that competes with, amongst others, Western
13 Union.

14 Q And what is MoneyGram's relationship to Ripple?
15 Or what is Ripple's relationship to MoneyGram?

16 A Ripple is an investor in the company. We are a
17 partner with them in context of On-Demand Liquidity. I
18 believe we have a board observer seat at the company.
19 Those are a handful of dynamics of the relationship.

20 Q When did Ripple become an investor in
21 MoneyGram?

22 A I believe the deal closed in June of last year.

23 Q Did you have any involvement in that deal, and
24 what was your involvement?

25 A Yes, I had involvement and I was certainly

1 actively involved in getting the deal kind of moving in
2 the macro construct and, during that course, throughout
3 the, you know, a point of contact with the CEO of
4 MoneyGram.

5 Q Did you negotiate the actual terms of the
6 investment?

7 A I would say I negotiated the macro construct of
8 the terms but not the actual terms that resulted in the
9 agreement that was ultimately consummated between the
10 companies.

11 Q Did you approve the final terms of the deal, of
12 the investment?

13 A Yes.

14 Q You said that MoneyGram is an ODL partner. Did
15 Ripple enter into a commercial agreement with MoneyGram
16 to use ODL?

17 A Yes, I believe so.

18 Q And did you have any involvement in either
19 negotiating that agreement or approving that agreement?

20 A Well, I would suspect as -- you know, that
21 partnership -- I mean, I don't know that I called it a
22 partner of ODL or a customer of ODL. My recollection is
23 that we entered into those deals contemporaneously and I
24 would imagine that they were approved together.

25 Q When you entered into the deals

1 contemporaneously, were they contingent on one another?

2 A I don't -- I mean, I interpret that question as
3 kind of a legal question of contingency and I don't know
4 the answer.

5 Q Would Ripple have invested in MoneyGram if it
6 didn't agree to enter into the commercial agreement?

7 A Probably not.

8 Q And why not?

9 A Ripple is not an investment entity. You know,
10 we're not a Berkshire Hathaway. And so we think about
11 leveraging our balance sheet in a way to benefit trust,
12 liquidity and utility across XRP.

13 Q So why was the commercial agreement an
14 important part of the deal with MoneyGram?

15 A I think, you know, by the time we signed
16 MoneyGram, we had a number of other customers, commercial
17 customers, not test customers, using ODL, but it was also
18 still very much early days. Having a scaled customer
19 allows us to go to an exchange like Bitso, market makers,
20 and say, hey, we know that we're going to have
21 significant volume and we can start -- I described
22 earlier, you know, part of that entrepreneurial journey
23 is getting the flywheel moving. And by getting MoneyGram
24 flows, we could actually go to the various participants
25 and know that this isn't hypothetical. This is real.

1 Q So was it -- in your opinion, did the
2 partnership with MoneyGram and MoneyGram's use of ODL
3 provide evidence of actual use and demand for the xRapid
4 product?

5 A I think it was certainly evidence of use
6 because they are using it, and I think they've had over a
7 billion dollars of flows. I suppose -- well, I think it
8 certainly is demonstrative of use. And as we have scaled
9 it, we certainly have learned in terms of how to scale it
10 efficiently and a way that reduces the incentives over
11 time to frankly all the participants, whether it be
12 MoneyGram or market makers.

13 Q You said you could take the information that
14 MoneyGram was using ODL and take that back to exchanges.
15 Was this information that was also relevant to XRP
16 holders or XRP purchasers?

17 A I don't know.

18 Q Did you publicly comment on Ripple's
19 relationship with MoneyGram, the investment and/or the
20 agreement to use ODL?

21 A Yes.

22 Q And why did you comment on it publicly?

23 A Well, by announcing a named partner like
24 MoneyGram, as you already know, Western Union kind of
25 picks up their ears and says, oh, we should be talking to

1 them. You know, getting other customers in the Americas
2 signed up, you know, we want to talk about the momentum
3 we have in getting customer usage and demonstrate that
4 the ability to use some of these capabilities are not --
5 have gone beyond just experiments but to enabling real
6 flows.

7 Q Did you want to create momentum by XRP holders
8 or momentum for people who were looking to buy XRP on the
9 secondary market?

10 A No.

11 Q Why not?

12 A That wasn't my goal. I don't think we see the
13 relationship between what's going on with ODL and XRP at
14 those two things -- you're asking me to correlate two
15 things I don't see as correlated.

16 Q Did you think there was a relationship between
17 an increase in ODL use and fluctuations in XRP's price?

18 A Did I think there is a relationship between
19 fluctuations in XRP and ODL usage, is that the question?

20 Q I'll ask another question.

21 Did you think that increased demand for xRapid
22 would increase the demand for XRP?

23 A No. As we discussed earlier today, that
24 increased demand for XR -- or the usage of ODL is neutral
25 in terms of demand for XRP.

1 Q Right. We discussed that that's on a
2 per-transaction basis. But in general, did you
3 understand or did anyone or did you believe that an
4 increase in demand for xRapid would increase the demand
5 for XRP and therefore --

6 A No.

7 Q What were the terms of the commercial agreement
8 with MoneyGram, generally?

9 A Yeah, I mean, we -- I mean, it's been a while.
10 Let's see. I think we invested I think a total of \$50
11 million in two tranches or roughly 20 percent of the
12 company in equity and warrants and got a I think board
13 observer seat and like -- there is no -- and a structure
14 of incentives for usage of ODL that scales based upon
15 volume.

16 Q When you say the incentives scaled based upon
17 volume, was the incentive structure structured to
18 incentivize more volume up front?

19 When I say up front, I'm talking about at the
20 beginning of the relationship.

21 A I don't know. Our general thesis with
22 incentives is to have some incentive to get live quickly
23 and to get things moving as quickly as possible and then
24 to have a declining scale of incentives as volumes grow.

25 Q And why did you set up the incentive structure

1 like that?

2 A Our goal is typically to get people live as
3 quickly as possible and to get some volume as quickly as
4 possible. As volumes grow, the flywheel is now moving,
5 and so it allows us to start reduce incentives and
6 ultimately, our expectation is eliminate incentives.

7 Q Prior to signing on MoneyGram, how much volume
8 was going through xRapid?

9 A I don't know.

10 Q What impact did the partnership with MoneyGram
11 have on ODL volume?

12 A It had a significant increase in ODL volumes.

13 Q Do you know what percentage MGI's ODL volume is
14 of the total ODL volume?

15 A I do not.

16 Q Is it more than 50 percent?

17 A I think it probably depends on which time
18 period we're talking about.

19 Q Well, when did MoneyGram begin to use ODL?

20 A As I mentioned, I believe we signed the deal in
21 June. I think they went live in August or September.
22 And, you know, material volumes I think started to ramp
23 in late Q4.

24 Q At the time that MoneyGram's volume peaked,
25 what percentage of ODL volume was MoneyGram transactions?

1 A Certainly it was more than 50 percent.

2 Q Was it close to 95 percent or above?

3 A I don't know. I also would point out it
4 depends how you measure these things, are by notional
5 value or by number of transactions. Did they use it for
6 corporate treasury flows or other customers use it for
7 lower remittances, and so we think primarily about number
8 of transactions, not necessarily notional volume.

9 Q Under both measures, what was -- how did the
10 volume that MoneyGram contributed compare to the volume
11 from other ODL customers in the aggregate?

12 A I'm certain that MoneyGram was the majority.

13 Q I want to ask you to locate the UPS package and
14 if you wouldn't mind, opening it up on camera for me.
15 There should be two binders. They're both in sealed
16 envelopes. One is for counsel and one is for you to take
17 a look at.

18 A There has to be a simple way to open these.
19 Here. Oh, there it is. This feels like A New Deal.

20 Q There is no money in there, I promise you that.

21 MR. CERESNEY: It's just gold.

22 THE WITNESS: XRP.

23 BY MS. WAXMAN:

24 Q A lot of private keys.

25 MR. CERESNEY: Yeah. Is it a web or go?

1 BY MS. WAXMAN:

2 Q It's certainly suspenseful, isn't it?

3 Do you have two envelopes, one for Matt, one
4 for yourself?

5 A Just one large envelope so far.

6 Q Okay. Well, then there are probably two
7 binders in there.

8 A Yeah, there are.

9 MR. CERESNEY: Are you going to share this on
10 the screen as well?

11 MS. WAXMAN: I can, sure. It's a pretty -- you
12 know, the documents are long but I can.

13 MR. CERESNEY: Why don't you just share the
14 relevant page.

15 MS. WAXMAN: Okay. I will once I introduce it
16 on the record.

17 MR. CERESNEY: That's fine.

18 (SEC Exhibit No. 134 was marked for
19 identification.)

20 BY MS. WAXMAN:

21 Q So I would like you to take a look at Exhibit
22 134. It's a long document. And I'll direct you to the
23 pages that I'm most interested in and then I'm going to
24 ask you some questions about it.

25 I would like you to take a look at pages 1

1 through 24, and there are page numbers at the top of the
2 document but there is also page numbers down in the
3 middle. So I'm talking about the page numbers at the top
4 right.

5 A Okay.

6 Q Take a look at pages 1 through 24 and
7 specifically page 3 through 7, and then if you skip over,
8 page 15 through 24. And take as much time as you need.

9 A Just so I understand the -- I didn't quite
10 follow which pages. So page 3 through 7 and 15 through
11 24 is where I should read?

12 Q Yes. Those are the pages I'm going to ask you
13 questions on.

14 A Okay.

15 Q This is a -- there is some technical
16 information in here, some accounting information. I'm
17 not going to ask you any technical accounting questions,
18 so any part of that document you can just stipulate over.

19 A Okay. I will start reading here.

20 Q Okay. And I'll share it on the screen for
21 anyone who wants to read it.

22 MR. CERESNEY: Thank you.

23 MS. WAXMAN: If you need me to scroll down --
24 for the people who are reading on the screen, if you need
25 me to scroll, let me know.

1 MR. CERESNEY: If you could go to the next
2 page.

3 MS. WAXMAN: I'm sorry, did you ask me to
4 scroll down?

5 MR. CERESNEY: Yes, please, the next page. And
6 now to page 3, which is the next page you're asking
7 about.

8 If you can go to the next page. Go to the next
9 page. And if you can go to the next page.

10 MS. WAXMAN: Do you want me to scroll?

11 MR. CERESNEY: Yeah, that would be great.

12 BY MS. WAXMAN:

13 Q Mr. Garlinghouse, let me know when you're done.

14 A I'm done with the section through -- I'm now
15 reading the sections 15 through 24.

16 Q Okay.

17 A As you pointed out, there are some accounting
18 mumbo jumbo. I -- I think you were okay with me skipping
19 some of that?

20 Q Yeah. I don't intend to ask you any questions
21 about the accounting reference in the document. I
22 really -- I'm going to ask you some questions about pages
23 20 through 24 and then pages 15.

24 MR. CERESNEY: If you can go to page 15 on the
25 screen, that would be good. If you can go down, that's

1 great.

2 MS. WAXMAN: I don't intend to ask about the
3 bottom.

4 MR. CERESNEY: 25, I guess, the next page?

5 MS. WAXMAN: Sure.

6 MR. CERESNEY: Great.

7 MS. WAXMAN: Do you want it bigger or smaller?

8 MR. CERESNEY: It's fine. Yeah, great.

9 THE WITNESS: I think I have a pretty good
10 review. I might ask to re-review based upon the questions
11 but I think I'm ready.

12 MS. WAXMAN: Okay.

13 MR. SOLOMON: Just, before you get started, I
14 just wanted the record to reflect that the complete
15 document is about 68 pages long. He's taken now maybe 10
16 minutes to review the portions of the document you've
17 asked him to focus on but he has not had an opportunity
18 to review the other 58 or so pages of this document.

19 MS. WAXMAN: Okay. I'll just state for the
20 record pages 25 through 68 reference the Ripple master
21 hosted service agreement between Ripple and the company
22 and its various amendments and attachments. The actual,
23 you know, document itself is 24 pages. And if it's okay,
24 I'm going to -- would you like me to continue to share my
25 screen or are you okay with copies in the room?

1 MR. CERESNEY: If you can continue to share the
2 screen, that would be great.

3 MS. WAXMAN: Okay.

4 BY MS. WAXMAN:

5 Q So I would like to direct your attention to
6 page 20, the first paragraph. What does the first
7 paragraph talk about?

8 A It talks about their costs and how they manage
9 liquidity today.

10 Q Does it talk about costs incurred by MoneyGram
11 using traditional payments?

12 A Yes.

13 Q Traditional payment rails?

14 A Yes.

15 Q And is this your understanding based on
16 conversations that you've had about MoneyGram or with
17 MoneyGram of the costs that they incur using traditional
18 payment rails?

19 A It is incomplete, but yes.

20 Q What's missing from that?

21 A The cost of capital.

22 Q And do you know what the cost of capital is for
23 MoneyGram?

24 A I do not.

25 Q But you think that's an additional cost that

1 they bear/incur?

2 A For certain.

3 Q The second paragraph talks about fees that
4 MoneyGram incurs in connection with their use of the ODL
5 platform. Is that your understanding?

6 A Yes.

7 Q And the fees that are identified, is this your
8 understanding of the fees that MoneyGram incurs in
9 connection with its use of ODL?

10 A It is my understanding how they have
11 articulated those costs, yes.

12 Q And is that accurate, those costs?

13 A I don't know.

14 Q Do you have any reason to believe that the
15 description of the fees that they incurred is inaccurate?

16 A I don't have any reason to believe that, no. I
17 mean, as I commented, you know, if you look at any
18 snapshot in time, it can tell an incomplete story and so
19 what these look like today versus fees look like in two
20 years, I'm thinking more about where the world's going in
21 X years than I am where we are right now.

22 Q Okay. But my -- today -- this document is from
23 November 22nd, 2019 and it bears the Bates stamp numbers
24 Moneygram_SEC_2 through 69. But today, is this an
25 accurate description of MoneyGram's fees?

1 A I have no reason to not believe it's an
2 accurate description as of the date it was written. Not
3 today.

4 Q And so what are the category of fees that they
5 outline in the document?

6 A They outline third-party exchange fees, they
7 outline spread -- they don't call it spreads but they
8 outline spreads. That's what I think the second paragraph
9 on page 20 is, referring to those two fees.

10 Q And the third paragraph talks about the
11 commercial agreement between Ripple and MoneyGram and
12 payments that MoneyGram is to receive under the contract.

13 Is this description consistent with your
14 understanding of the terms of the commercial agreement
15 with MoneyGram?

16 A I have no reason to not believe that it's
17 consistent.

18 Q The fourth paragraph talks about additional
19 fees due to MoneyGram under -- from Ripple under the
20 contract. It references 110 million in transaction fees.

21 Was this number subsequently reduced at any
22 time?

23 A I am not sure.

24 Q The amounts due to MoneyGram under the
25 commercial agreement, does Ripple disclose any of that

1 anywhere?

2 A To whom?

3 Q Does Ripple publicly disclose the terms of the
4 agreement or any of the payments that it makes to
5 MoneyGram in connection with the commercial agreement?

6 A As a private company, no.

7 Q Is there any reason why it doesn't disclose
8 this information?

9 MR. SOLOMON: Don't answer the question if
10 answering it would reveal any advice you've gotten on the
11 subject from your attorneys.

12 THE WITNESS: Sorry, if we could go back to --
13 your question is --

14 BY MS. WAXMAN:

15 Q It's simply why doesn't Ripple disclose the
16 terms of the agreement with MoneyGram?

17 A Because we're a private company and certainly
18 we would share that with our board of directors, but
19 with -- there is no requirements to share it publicly.
20 And as we build the business, there are lots of things we
21 do that we are not -- you know, that could be used by our
22 competitors to, at this nascent stage, be disruptive to
23 our growth and our strategy.

24 Q The very last paragraph, it says that Ripple
25 pays transaction fees and that those fees are paid in

1 XRP. Do you see that?

2 A Yes.

3 Q Did Ripple place any restrictions on
4 MoneyGram's sales of the XRP that it provided in
5 connection with the transaction fees?

6 A I believe so.

7 Q And are these restrictions similar to those
8 placed on financial institutions who purchase XRP at a
9 discount from Ripple?

10 A I don't know.

11 Q What restrictions did Ripple place on
12 MoneyGram's sales of that XRP?

13 A I don't recall specifically.

14 Q And what is the purpose of placing restrictions
15 on the sales of XRP by MoneyGram?

16 A It's our intention to make sure that the impact
17 of Ripple's activities -- and I would call MoneyGram an
18 extension of Ripple's activities by virtue of using XRP
19 as an incentive -- that we don't have an impact on the
20 market. And so by putting restrictions -- when I say the
21 market, I'm referring to the XRP market. By putting
22 restrictions on their sales, we're mitigating the risk of
23 unexpected impacts on the market through Ripple or its
24 extended players like MoneyGram.

25 Q And when you say impact to the market, are you

1 talking about impact to price and volume?

2 A Yes.

3 Q Can you turn now, on the top of page 21, it
4 says, "The following will illustrate the flow of funds
5 for both the traditional foreign exchange utilizing a
6 commercial bank and using the ODL platform, as well as
7 demonstrate the economics of both transactions. For
8 illustration purposes, both scenarios will assume foreign
9 exchange rates stay constant."

10 This is page 22. And this is page 23. These
11 are the two charts.

12 And my understanding is that the two charts are
13 comparing the costs of the same -- how much it costs to
14 send a thousand dollars using traditional payment rails
15 verse the ODL platform.

16 A I'm sorry, is there a question?

17 Q Yes. Based on these two illustrations, does it
18 cost MoneyGram more to use ODL than using traditional
19 payment rails?

20 A Based upon these illustrations from MoneyGram
21 dated November of last year, I think it clearly
22 demonstrates that their analysis is it costs more.

23 Q And how much does it cost to send the payment
24 that they use as an example using traditional rails,
25 according to this document?

1 A \$17.25 is what they're showing, I think.

2 Q And how much does it cost --

3 A Just in the context of -- sorry. Go ahead.

4 Q And how much does it cost to send the same
5 transaction using ODL, according to this document?

6 A \$156.75.

7 Q If you turn to --

8 A But if I can clarify one thing, I believe you
9 had stated that it was an analysis to moving \$1,000. my
10 reading of this is it's an analysis moving \$22,477.

11 Q Notional USD, okay. But it's comparing apples
12 to apples?

13 A No, it's not.

14 Q No, it's not? Are they comparing moving the
15 same amounts using traditional payments and moving the
16 same amount using ODL?

17 A As I had shared earlier, I believe that any
18 analysis of costs is incomplete without understanding the
19 cost of capital.

20 Q Do you believe the cost benefits from reducing
21 MGI's costs of capital outweighs the difference between
22 the costs on page 22 and 23?

23 A I think that over the long haul, I'm very
24 confident in that. If I were to use a little bit of math
25 from the document you shared with me, it says in the

1 document that on any given day, they have \$120 million of
2 liquidity parked in accounts around the world. If you
3 assign for, you know, a corporate of their size, a cost
4 of capital of 10 percent, which seems reasonable --
5 probably theirs is more expensive because they have a lot
6 of debt. They have a debt problem. You know, that costs
7 them \$12 million a year to pre-fund all those accounts.
8 \$12 million a year is a lot of money and so you divide
9 that across a lot of transactions and there's a lot of
10 cost savings there.

11 Q You said that you thought the benefits outweigh
12 the differences over the long haul. What about in
13 November 2019 and what about now?

14 A Well, I guess the point I was trying to make is
15 I think this is an analysis that's not comparing apples
16 to apples, and that it is incomplete by not understanding
17 the value proposition of not pre-funding accounts. I
18 think this is showing their analysis based upon last
19 November. My point in saying the long haul is that
20 certainly the fees you see represented on page 23, at
21 least as identified in the top right corner of page 23,
22 those are fees as of last November and even since that
23 time, the fees involved have reduced. And I expect they
24 will continue to reduce, and so when I refer to the long
25 haul, I think about the ongoing dynamic.

1 Q Did Ripple itself do the apples-to-apples
2 comparison comparing costs for -- MoneyGram's costs to
3 use traditional rails as opposed to its costs to use ODL?

4 A I don't know.

5 Q Did you publicly talk about ODL's ability to
6 reduce MoneyGram's costs?

7 A I suspect I did. That's why you're asking.

8 Q When you --

9 A I don't recall specifically is my -- I'm sure I
10 spoke publicly about the MoneyGram deal and I do believe
11 that On-Demand Liquidity has potential to significantly
12 reduce the costs associated with cross-border liquidity
13 management and, by extension, payments.

14 Q You say the potential. However, did you tell
15 customers that there were actual cost savings by using
16 xRapid or On-Demand Liquidity and at the time that you
17 made the statement, not in the future?

18 A I don't recall.

19 Q It is your understanding now sitting here today
20 that ODL provides cost savings to MGI?

21 A I don't have that information available to me
22 because I don't have MoneyGram -- for example, I don't
23 have MoneyGram's cost of capital.

24 Q Is it accurate to say that ODL saves MoneyGram
25 money today?

1 A I don't know.

2 Q Is it accurate to say that ODL saves MoneyGram
3 money as of November 2019?

4 A I don't know.

5 Q Did you say that ODL saved MoneyGram money?

6 A I don't recall.

7 Q If you turn to page 24, it talks about the
8 terms of the agreement, the commercial agreement and
9 payments that Ripple makes to MoneyGram and it talks
10 about rebate fees and transaction fees.

11 Would ODL be uneconomical for MoneyGram without
12 the payment of the rebate or transaction fee from Ripple?

13 A I don't know.

14 Q Based on this diagram and the information in
15 the document, would ODL be uneconomical absent these
16 payments?

17 A Well, I mean, if you're just asking me to
18 ascertain the math on page 24, then I'm not going to
19 argue with what is printed on the page. What I'm
20 pointing out, as I have, is that I don't know who did
21 this analysis and what is included in the analysis and my
22 impression is it doesn't include what I testified to this
23 morning. The most important cost savings I believe was
24 ODL -- formerly known as xRapid -- is the cost savings
25 associated with liquidity management, which is absent

1 from this analysis. Apparently --

2 Q So when you're talking about cost savings, are
3 you only -- strike that.

4 When you were referring to cost savings, were
5 you only referring to savings resulting from --
6 associated with pre-funding?

7 MR. SOLOMON: I'm sorry, when referring to cost
8 savings when? I apologize if I missed it. You're saying
9 generically when he was talking about cost savings or are
10 you talking about today? And I apologize. I may have
11 just missed it.

12 MS. WAXMAN: No problem.

13 BY MS. WAXMAN:

14 Q When you spoke about cost savings in connection
15 with ODL, either cost savings by MoneyGram or in general,
16 were you talking about cost savings related to
17 pre-funding or were you talking about additional cost
18 savings from other means?

19 A When I testified this morning, I think the
20 primary cost savings I think about when I think about ODL
21 is associated with the benefit of the costs associated
22 with pre-funding.

23 Q Are there costs associated with FX rates,
24 better FX rates?

25 Are there cost savings associated with better

1 FX rates?

2 A I mean, based on what data? Based upon what
3 MoneyGram has presented, their analysis, the answer -- I
4 think they are saying no. Is that the question you're
5 asking?

6 Q Well, just in general, I was asking the
7 question if there are cost savings from, you know, ODL
8 providing better FX rates.

9 A I think that potential certainly exists.

10 Q And were you thinking about that when you
11 referenced cost savings in connection with ODL? Is that
12 what -- did you factor that in to your analysis?

13 A Which reference of cost savings are you
14 referring to?

15 Q Okay. I'll strike that. We can take a look at
16 some specific references.

17 A Okay.

18 Q I want you to turn to page 15 and point you to
19 the third paragraph where -- if you want to read that for
20 a minute, I have a question when you're done.

21 A Okay.

22 Q Did you ever discuss with MoneyGram their
23 understanding of their role under the commercial
24 agreement as a, quote, service provider rather than a
25 customer of ODL?

1 A I have no recollection.

2 Q What service is MoneyGram providing under the
3 agreement according to this document?

4 A I mean, I guess you're asking me to interpret
5 the document to opine on what service MoneyGram's
6 providing Ripple?

7 Q Yes.

8 A Is that the question?

9 I think the document's arguing that it doesn't.
10 I think that's the accounting position they're taking.

11 Q I'm not talking about the accounting position.
12 I'm just talking generally, did you --

13 A That whole section is about an accounting
14 treatment.

15 Q Did you view MoneyGram as a customer of Ripple?

16 A I view users of On-Demand Liquidity as
17 customers of Ripple.

18 Q Did MoneyGram ever tell you that they viewed
19 the relationship differently and that they viewed
20 themselves as a service provider?

21 A Well, my interpretation is they're seeking
22 certain accounting treatments with the SEC and so they're
23 taking a position in terms of how they're doing that. I
24 think if you looked at Alex Holmes' comments -- and he
25 has spoken at some of our customer events -- he has

1 attended as a customer and has represented as a customer.

2 Q Are you saying MoneyGram's representation to
3 the SEC, the Office of Chief Accountant, are not
4 accurate?

5 MR. CERESNEY: You know, I'm not going to let
6 him answer that question, Daphna.

7 BY MS. WAXMAN:

8 Q Did you discuss with MoneyGram whether they
9 understood it was more expensive for them to use ODL?

10 A No.

11 Q Did they ever tell you that it was more
12 expensive for them to use ODL?

13 A They definitely, during the course of
14 discussions, shared that when they think -- when they
15 don't think about the costs of capital, they weren't
16 clear today that there were savings associated with using
17 ODL.

18 Q So absent factoring the costs of capital, they
19 told you that -- what did they tell you?

20 A They're not sure it was cost savings.

21 Q And when did they tell you that?

22 MR. SOLOMON: I just want to be careful when
23 talking about what did they tell you, when did they tell
24 you that. I think you should just make clear if you
25 remember having a conversation, who was it with, or if

1 you're just having general recollections, not the crux of
2 the conversation.

3 THE WITNESS: The one conversation I recall
4 because it -- which I found humorous -- is the
5 conversation with Alex Holmes, the CFO, discussing their
6 costs and Alex Holmes asking the CFO for their costs of
7 sending money into Mexico, and his analysis left out the
8 cost of capital. I asked the CFO what about the cost of
9 capital. There was a very long, dramatic pause. I think
10 he felt awkward because he realized, in fact, yes, there
11 is a cost of capital and it wasn't included in his
12 analysis.

13 BY MS. WAXMAN:

14 Q If you took out the cost of capital, would ODL
15 be more expensive for MoneyGram?

16 A Based on MoneyGram's analysis as of last
17 November, I think the answer is yes.

18 Q And based on what Alex Holmes has stated to you
19 or anyone else at MoneyGram, would you have the same
20 answer?

21 A I don't have a different answer. Yes, I
22 guess -- yes.

23 Q And what about if you do include the cost of
24 capital as part of the analysis. Is ODL still more
25 expensive for MoneyGram than using traditional payment

1 rails?

2 A I don't know.

3 Q Did Alex Holmes ever say anything to you about
4 that?

5 A I don't recall.

6 Q Did you ever discuss that with anyone at
7 Ripple?

8 A Not that I recall.

9 Q Now, talking about other customers other than
10 MoneyGram, was it -- did those customers incur cost
11 savings from using ODL?

12 A If I can just clarify the question, you're
13 asking me to opine on the cost savings of other companies
14 in their analysis?

15 Q Yes, but not to opine but based on your
16 specific conversations that you've had about the subject.

17 A I don't recall.

18 (SEC Exhibit No. 148 was marked for
19 identification.)

20 Q I would like you to turn to Exhibit 148 in the
21 binder.

22 MR. SOLOMON: Before we move on, let me just
23 make sure, do you need a quick break, bathroom or coffee
24 or anything like that? We're an hour and five minutes
25 in.

1 THE WITNESS: Maybe do the next exhibit and
2 take a break, if that works for Daphna?

3 MR. SOLOMON: Assuming it doesn't take as long
4 as the prior document.

5 (Laughter.)

6 MR. SOLOMON: Daphna, do you expect this
7 exhibit is going to be quicker or do you think it's going
8 to be another significant amount of questioning?

9 MS. WAXMAN: It's only a four-page document. I
10 think we can get through it fairly quickly.

11 BY MS. WAXMAN:

12 Q So just for the record, let me explain Exhibit
13 148 to you. I'm going to stop sharing my screen. The
14 first page of Exhibit 148 is a screen shot of a video of
15 an interview that you gave on Bloomberg, and at the very
16 top of the page is the HTML website for the YouTube
17 video, and then the next pages is a transcription of the
18 video.

19 A Okay.

20 Q Why don't you take a couple of minutes to look
21 at it and let me know when you're done and I could share
22 it on the screen as well if people want me to do that.

23 MR. CERESNEY: That would be great. And what
24 was the date of the interview, Daphna?

25 THE WITNESS: Looks like --

1 MS. WAXMAN: I can't read this.

2 THE WITNESS: It would have been about June or
3 July last summer.

4 MS. WAXMAN: I can tell you in a second. It's
5 on the document. I just can't -- I'll tell you in a
6 moment. My eyesight is really poor. It's from June
7 2019.

8 THE WITNESS: I think I'm ready.

9 MS. WAXMAN: Okay. I just need a moment.

10 BY MS. WAXMAN:

11 Q On page 3 beginning at line 13, you say, "With
12 MoneyGram, we know out of the gates we can actually make
13 their system much more efficient."

14 A I think the sentence goes on. An important
15 context is, "And the key reason is today both Western
16 Union and MoneyGram, they pre-fund accounts around the
17 world."

18 Q In connection with your comments regarding
19 MoneyGram's cost savings, did you ever disclose any of
20 the payments that Ripple provided under the agreements?

21 A I think on line 5 below, looks like the answer
22 is somewhat yes based upon I'm talking publicly about the
23 investment we made.

24 Q Do you disclose the -- when you talk about the
25 investment, are you talking about the \$50 million

1 investment?

2 A I believe your question was did Ripple disclose
3 any of the payments made to MoneyGram. I'm pointing out
4 that in this document there is a payment.

5 Did we disclose the incentive payments that are
6 variable based upon performance? No. I don't think we
7 had an obligation to do so as a private company. And
8 obviously as variable payments, they had not been
9 achieved or earned.

10 Q At the time of the interview?

11 A Correct. At the time of the interview or when
12 the deal was signed, which was roughly the same time.

13 Q I just want to clarify again, did you ever do
14 an overall analysis to determine whether overall costs
15 were reduced by MoneyGram when taking into account
16 pre-funding costs and the increase in transaction costs
17 on a per-transaction basis?

18 A I don't know.

19 MR. SOLOMON: She asked you whether you had
20 ever done it.

21 THE WITNESS: I did not.

22 BY MS. WAXMAN:

23 Q Did anyone at Ripple do that?

24 A I don't know.

25 Q Do you think your comments present an accurate

1 picture of the benefit that MoneyGram receives by using
2 ODL when you don't mention the enormous cost increase
3 that incurs on a per-transaction basis?

4 A Which enormous cost increase are you referring
5 to?

6 Q I'm talking about the difference between using
7 traditional payment rails as opposed to ODL?

8 A As I testified earlier, I haven't seen that
9 analysis.

10 Q Well, based on the MoneyGram document.

11 A My testimony is that the MoneyGram document is
12 not comparing apples to apples and so it's an incomplete
13 analysis. So, no, I guess the answer to your question is
14 no, I have not seen that.

15 Q You described savings associated with ODL as
16 massive. Are you talking about savings in connection
17 with pre-funding costs?

18 A I think my testimony this morning and the
19 transcript you're having me read both have, in my
20 judgment, been clear that I'm primarily -- when I think
21 about savings, I'm primarily thinking about the cost of
22 capital associated with reducing the requirements for
23 nostra/vostra accounts. That's what the transcript says
24 also.

25 Q If you take a look at Exhibit --

1 MR. SOLOMON: I think we agreed we would take a
2 short break after this exhibit. We can make it a very
3 short one or we can make this an afternoon break. I
4 think we might as well take the afternoon break since
5 we're an hour 15 in, Daphna, if that's okay.

6 MS. WAXMAN: I just want to finish this topic
7 if that's okay with you.

8 MR. SOLOMON: Well, you just said you wanted to
9 do one more exhibit and we did that exhibit. I think
10 Brad should be able to use the rest room and have a
11 little bit of a break now so we would like to take a
12 break now.

13 MS. WAXMAN: Okay. I'll give you -- how about
14 10 minutes, does that work?

15 MR. SOLOMON: Sure. Absolutely. Thank you
16 very much and appreciate it.

17 MS. WAXMAN: No problem. We're off the record
18 at 2:44.

19 (A brief recess was taken.)

20 MS. WAXMAN: We're back on the record at 2:54.

21 BY MS. WAXMAN:

22 Q Mr. Garlinghouse, while we were off the record,
23 did you have any conversations with the staff?

24 A No, I did not.

25 MS. WAXMAN: Can counsel please confirm.

1 MR. SOLOMON: We confirm that he did not.

2 And Daphna, just noting for the record it's now
3 2:54 and we've been through two of the more than 100
4 documents that we were supplied earlier today, or
5 recently, and our hope is to move through it quickly and
6 I think we can make ourselves available until at or
7 around 6:00 p.m., but we're hoping that that's fine with
8 Mr. Garlinghouse. So again, whatever we can do to
9 facilitate that, we hope you will do the same and move
10 with deliberate speed. Thank you.

11 MS. WAXMAN: We'll try our best.

12 BY MS. WAXMAN:

13 Q Mr. Garlinghouse, I just want to make sure I
14 understand your testimony. When you were talking about
15 cost savings associated with xRapid and ODL, were you
16 only talking about cost savings related to pre-funding
17 costs?

18 A I'm not familiar with which specific time I may
19 have commented about savings you're referring to so I
20 guess I'll -- if you'll point me to that, I can maybe
21 help provide more clarity there.

22 Q Sure, I definitely can but in general, when you
23 were talking about costs savings related to xRapid and
24 ODL, were you only talking about cost savings due to
25 reducing pre-funding costs?

1 A So I think my testimony this morning and
2 certainly I would reiterate I think that a -- in the
3 transcript here, it says a key reason. I think this
4 morning I said a primary reason. I don't know I would go
5 so far as to say that's the only reason.

6 It is my expectation, as I think I've also said
7 in testimony earlier today, that the costs associated
8 with using ODL will continue to reduce as volumes
9 increase, spreads tighten and the fees associated with
10 these products as they scale continue to reduce. And
11 that is what we have seen and I think -- my understanding
12 is we've shared that information with the SEC.

13 Q What information are you talking about that
14 you've shared with the SEC?

15 A I don't -- I probably -- I don't know exactly
16 what has been shared with the SEC so maybe I should stay
17 out of the legal realm of what has been shared.

18 Q Sure. Did anyone at Ripple do an analysis of
19 the overall impact of costs by customers using xRapid?

20 MR. CERESNEY: I thought we covered this
21 earlier today.

22 MS. WAXMAN: I just --

23 MR. SOLOMON: Yeah, I think his response was he
24 didn't know what other customers had --

25 MR. CERESNEY: Yeah, there was that, but then

1 there was also --

2 THE WITNESS: I'm not aware -- I think the
3 question was whether I had done an analysis and I said I
4 hadn't done an analysis, then there was a question of has
5 Ripple done an analysis. I said I'm not familiar with
6 that.

7 BY MS. WAXMAN:

8 Q Did Ripple's customers provide information to
9 Ripple about their costs related to ODL and potential --
10 and actual cost savings?

11 MR. CERESNEY: Just when you say provide
12 information, I just want to make sure, he's already cited
13 public statements and public statements speak for
14 themselves. So do you mean the actual data, like the --

15 MS. WAXMAN: Yes, thank you.

16 MR. SOLOMON: Okay.

17 BY MS. WAXMAN:

18 Q So I'm talking about actual data that you could
19 verify, independently confirm yourself.

20 A No, I've taken what the -- verbal statements
21 I've seen from existing customers at face value. To my
22 knowledge, Ripple has not done any verification or
23 oversight on that analysis.

24 Q Do you know if anyone else at Ripple received
25 actual hard data about costs incurred by customers and

1 actual cost savings from using xRapid?

2 A Not that I can recall.

3 Q If total costs from using ODL outweighed the
4 benefits, pre-funding benefits, would this present a
5 massive cost savings?

6 A I want to make sure I understood the question.
7 If the total costs including the benefits associated with
8 pre-funding outweighed ODL's costs, would that be a
9 massive cost savings? I'm not sure I captured --

10 MR. CERESNEY: Can you restate the question,
11 Daphna?

12 MS. WAXMAN: Sure.

13 BY MS. WAXMAN:

14 Q If the total costs on a per-transaction basis
15 outweighed the pre-funding benefits, does this still
16 present massive cost savings for customers?

17 A No. No, based upon the data today, or based
18 upon the data -- well, actually, I don't even really know
19 the answer to that. The data presented in this MoneyGram
20 analysis last November, if you use that data, then no.

21 I think your question literally -- you're
22 saying a hypothetical question of if the costs here were
23 outweighed, clearly the answer is no. It's a
24 hypothetical question which I'm not sure is grounded in
25 reality.

1 Q We can move on. That's okay.

2 At any point in connection with any of your
3 public remarks regarding xRapid, did you make clear that
4 there were other costs associated with using xRapid other
5 than pre-funding costs?

6 MR. CERESNEY: Wait. I think the pre-funding
7 costs are not associated with using xRapid. Pre-funding
8 costs are what you save by using xRapid.

9 THE WITNESS: Correct.

10 BY MS. WAXMAN:

11 Q Okay. Did you ever talk about transaction
12 costs in connection with xRapid?

13 A I don't know.

14 (SEC Exhibit No. 160 was marked for
15 identification.)

16 Q Okay. Why don't you turn to Exhibit 160 in the
17 binder. Actually --

18 MR. CERESNEY: Which binder?

19 MS. WAXMAN: That exhibit is not in the third
20 party binder.

21 MR. CERESNEY: It's not in this one either.

22 MS. WAXMAN: All right. I can show the video
23 and share it on screen.

24 MR. SOLOMON: Can you identify where it's from
25 before you show it to me?

1 MS. WAXMAN: Sure. It's an interview of Brad
2 on CNN with Julia Chatterley dated September 12th, 2019.
3 If you give me a second, I will pull it up.

4 BY MS. WAXMAN:

5 Q Okay. This is an 11-minute video and I'm only
6 going to show a portion of it. I'm going to show
7 starting from minute 8:30.

8 (Video was played.)

9 THE WITNESS: Daphna, just so you know, we
10 can't hear anything.

11 BY MS. WAXMAN:

12 Q Oh, okay. Thank you very much.
13 Let's see how I can fix that. Let's try again.
14 (Video was played.)

15 BY MS. WAXMAN:

16 Q Can you hear it now?

17 MR. CERESNEY: No. She's moving in slow
18 motion.

19 MR. SOLOMON: I like that tie.

20 THE WITNESS: I feel like I'm wearing the same
21 tie.

22 MS. WAXMAN: Can you see the screen now?

23 MR. CERESNEY: We can see the screen but we're
24 not hearing it.

25 MS. WAXMAN: I think I figured it out. No

1 problem.

2 Can you hear it now?

3 MR. CERESNEY: No. I think it's some sort of
4 speed issue. Again, she's moving very, very slowly.
5 We're not hearing it.

6 MS. WAXMAN: I have a transcript. I'll just
7 show you that.

8 MR. CERESNEY: Okay.

9 MS. WAXMAN: Okay. Can you see the --

10 THE WITNESS: We see that, yes.

11 BY MS. WAXMAN:

12 Q So this is, at the very top, the YouTube
13 website where I pulled the video. This is an image of
14 that page and then if I scroll down, it's marked as
15 Exhibit 160, and then if I scroll down, there is a
16 transcript, and I'm going to direct you to minute 8:30
17 which -- I'm going to direct you to page number 9, line
18 19, starting from there.

19 MR. SOLOMON: Is there any way you can make it
20 a little bit larger? I'm sorry.

21 MS. WAXMAN: No, don't apologize. It's not an
22 ideal situation.

23 THE WITNESS: Just a little bit. I'm in denial
24 about my eyesight.

25 MR. SOLOMON: Oh, there it goes.

1 THE WITNESS: All right.

2 BY MS. WAXMAN:

3 Q I'll just scroll to the right portion.

4 A As I start reading at line 19, where would you
5 like me to read --

6 Q Through page 10, line 19. It just continues a
7 little more.

8 A Okay.

9 Q So you say in the interview that MoneyGram has
10 no sweetheart deal with Ripple.

11 A That's not how I read it actually.

12 Q Okay. How do you read it?

13 A The question I think being asked is associated
14 with what price is MoneyGram buying XRP as part of the
15 ODL flow. When MoneyGram goes to -- and as the documents
16 you've shared with me show -- at Bitstamp, they're buying
17 XRP at the market.

18 This is, again -- you can't see it on the
19 screen right now but I think if you scroll up to the core
20 question, the core question here is, "What price do you
21 sell XRP to to the financial institutions you're dealing
22 with here? Do you give them a discount and is there a
23 lockup?"

24 So I'm using MoneyGram -- at what price is
25 MoneyGram buying XRP. They're buying it at the market.

1 Q Correct. I understand that. But later on you
2 talk about providing discounts to financial institutions
3 who purchase XRP over the counter, correct?

4 A I seem to -- yes.

5 Q And you talk about restrictions that Ripple
6 places on the XRP that is purchased?

7 A Yes.

8 Q And earlier didn't we talk about XRPs that
9 Ripple provided to MoneyGram as transaction fees?

10 A Well, it's my opinion they're conflating two
11 unrelated things. I'm talking about MoneyGram as a buyer
12 of XRP as part of their flows, as part of ODL, to which
13 they don't get a discount and to which there is no sales
14 restriction.

15 Q I understand your distinction.

16 A Okay.

17 Q Did you ever disclose to the market the
18 incentive payments that you provided to MoneyGram?

19 A I think I was asked my earlier. I think my
20 testimony was that, no, as a private company, I don't
21 think we are required to do so when we signed the deal as
22 we're incentive payments based upon performance -- well,
23 even if they weren't, I'm not sure that as a private
24 company we had an obligation to do so.

25 Q Do you think the statement that MoneyGram has

1 no sweetheart deal with Ripple is a little misleading?

2 A That's not my statement. That's not what the
3 statement says.

4 Q You're saying that when MoneyGram moves -- when
5 MoneyGram purchases XRPs in the market, it's not
6 purchasing at a discount?

7 A I think what I exactly said is when MoneyGram
8 is moving money from U.S. dollars to Mexican peso,
9 they're buying at market. I believe that's a factual
10 statement.

11 (SEC Exhibit No. 132 was marked for
12 identification.)

13 Q Okay. I'm going to stop sharing my screen.

14 I just want to quickly move on to Exhibit 132.
15 It's one of the blue documents.

16 MR. CERESNEY: Can you put it on the screen,
17 Daphna?

18 MS. WAXMAN: Sure. And before I do that, I'm
19 going to ask you about the middle email and the email --
20 the email at the top of page 2 and the email on page 1 at
21 the top.

22 BY MS. WAXMAN:

23 Q Can you see the document?

24 A Now I can, yes. Thank you. Okay.

25 Q If you look at page 2 in the middle of the

1 page -- strike that.

2 Do you recall -- the very bottom of page 2
3 talks about a meeting that you participated in with
4 representatives of Western Union in or around May 2018.
5 Do you recall participating in a meeting with Western
6 Union reps then?

7 A I do not recall. It would appear further up in
8 the email that it suggests that maybe I came in for like
9 10 minutes and left.

10 Q I see that. In the top of page 2, it talks
11 about feedback that they provided to Ripple in connection
12 with the pilot of xRapid. Is that your understanding as
13 well of the document?

14 A Yes, that looks like it.

15 Q And earlier today you had testified that you
16 understood that Western Union did not incur any cost
17 savings because the product had matched efficiencies that
18 were already in place?

19 A I believe that was my testimony earlier, yes.

20 Q Did you ever offer to pay -- in number 2, it
21 talks about -- it says that Western Union and Ripple
22 discussed --

23 A Where are you reading? Sorry.

24 Q Top of page 2, number 2.

25 A My top page is, "However, we discussed how they

1 may provide incentives for us to join XRP."

2 Q Correct.

3 A I don't know what that means.

4 Q Did you ever offer to provide Western Union
5 incentives or offer similar arrangement to Western Union
6 like you offered to MoneyGram?

7 A I am not aware of any specific proposals in
8 that regard.

9 Q If you turn to the first page, at the very top,
10 from [REDACTED] dated May 18th, 2018, it says that
11 they believe the cost savings associated with xRapid is,
12 quote, unquote, bogus. Then they say, which they now
13 openly acknowledge.

14 Did you or anyone at Ripple admit to Western
15 Union that claims of cost savings from xRapid were bogus?

16 A I think that this is a characterization that
17 they're choosing to make that, as I testified this
18 morning, the tests which we did during a beta test of the
19 product matched the efficiency of their underlying
20 infrastructure, and they're calling that claims of
21 savings were bogus. I would also go on to say, as I
22 think we went deep on with MoneyGram, I would assert,
23 without full information because this is a limited
24 snippet, that their analysis does not include their own
25 cost of capital associated with the amount of working

1 capital they've parked around the world.

2 Q I'm going to show you another exhibit on the
3 screen now.

4 MR. SOLOMON: Just to clarify the record on
5 this exhibit, are you on this email chain anywhere?

6 THE WITNESS: No.

7 MR. SOLOMON: Anybody ever show this email
8 chain to you?

9 THE WITNESS: No.

10 MS. WAXMAN: This email chain has exhibits
11 WU_Ripple_7414 through 6416.

12 MR. SOLOMON: Daphna, this document is not in
13 the third party binder?

14 MS. WAXMAN: Yeah. And I would play the video
15 for you to make it easier but I just can't because of
16 technical difficulties, but I do have a transcript that I
17 can share on the screen. And I apologize for the delay.

18 BY MS. WAXMAN:

19 Q Okay. Can you see my screen?

20 A Yes.

21 Q Okay. So this is a transcript of an interview
22 that you gave on Business News Network on December 14th,
23 2017, and the transcript begins on page 4, and I want to
24 direct your attention to page 2, line 4 through the end
25 of page 3.

1 (SEC Exhibit No. 158 was marked for
2 identification.)

3 THE REPORTER: And this is Exhibit 158?

4 MS. WAXMAN: Correct. This is Exhibit 158.

5 BY MS. WAXMAN:

6 Q And I can scroll down when you're done reading
7 the first part.

8 A Yep, I'm finished with that first page, or
9 what's on the screen.

10 I'm sorry, can you scroll back up there? Thank
11 you. Okay, I've read through that.

12 Q So on page 3, line 4, you say, "I'm long XRP,
13 I'm very, very long XRP as a percentage of my personal,
14 you know, balance sheet."

15 What did you mean by long?

16 A That I was exposed -- I had economic exposure
17 to the underlying asset XRP and was a long-term believer
18 and holder of the potential appreciation of the asset.

19 Q So you believed that your XRP holdings would
20 potentially increase in price?

21 A Yes.

22 Q Did you view your XRP holdings as an
23 investment?

24 A You know, I'm going to parse the word
25 investment there in that some people consider holding

1 dollars an investment. Some people consider holding the
2 Japanese yen investment.

3 In that context, I consider my holdings in
4 bitcoin an investment and I consider my holdings of XRP
5 something that I have economic interest in and therefore
6 an investment.

7 Q Did you ever intend to use the XRP that you
8 owned?

9 A I -- maybe -- I'm certainly not trying to avoid
10 the question. I have used the XRP I have owned for
11 various payments.

12 Q You have used the XRP that you owned for
13 payments?

14 A That's correct.

15 Q Can you be more specific?

16 A I've made a payment -- the most recent payment
17 I've made is to Representative Emmer of Minnesota as part
18 of a campaign contribution.

19 Q Did you receive anything in exchange for that
20 payment?

21 A I'm not --

22 MR. CERESNEY: Something in exchange from
23 Representative Emmer, is that what you're asking?

24 BY MS. WAXMAN:

25 Q Yeah, you said you used it so -- you said you

1 used it to make a payment. Did you get anything in
2 exchange for that payment?

3 MR. CERESNEY: I think he said he made a
4 contribution to Representative Emmer using XRP. I think
5 that's what he said.

6 Are you asking whether Representative Emmer
7 gave anything in return? Is that the question?

8 MS. WAXMAN: Yes.

9 THE WITNESS: No.

10 BY MS. WAXMAN:

11 Q You state in the video that -- and I want to
12 make sure I showed you the right page. At the time of
13 the interview, did you think XRP was undervalued?

14 A I have no recollection of what I was thinking
15 at that time.

16 Q But you believed that XRP presented a good
17 investment opportunity for yourself?

18 A I think all I'm really saying here is that I'm
19 long XRP.

20 Q And when you say I'm long XRP, what does that
21 mean?

22 MR. SOLOMON: I think you just asked him that
23 question, Daphna.

24 BY MS. WAXMAN:

25 Q Does that mean that you expect XRP's price to

1 go up in value?

2 MR. SOLOMON: You already asked him that
3 question too.

4 THE WITNESS: I -- I think I'm standing by my
5 statement that I'm long XRP and I don't know -- I don't
6 recall what I was thinking about. I was answering the
7 question that was being asked by a reporter.

8 (SEC Exhibit No. 141 was marked for
9 identification.)

10 BY MS. WAXMAN:

11 Q I would like you to take a look at Exhibit 141
12 which is an interview from March 2018. The first page of
13 the exhibit shows the YouTube address where the video is
14 from. And I'll ask you to take a look at page 15, line 3
15 through page 17, line 4.

16 A Sorry, start at page 15, line 3?

17 Q Line 3.

18 MR. CERESNEY: Can you put it up on the screen?

19 MS. WAXMAN: Yeah. It may take -- it's proving
20 a little distracting for me, so I apologize.

21 THE WITNESS: Where am I to read to? I
22 apologize.

23 BY MS. WAXMAN:

24 Q Page 15, line 3 through page 17, line 4.

25 A Okay.

1 Q In March 2018, at the time of this interview,
2 did you believe -- why did you believe that the XRP
3 Ledger was not centralized?

4 A I mean, a host of reasons. The way the XRP
5 Ledger works, there isn't one party that can control the
6 XRP Ledger, as an important measure. I mean, as I'm
7 quoted here, you know, anybody can run a validator. If
8 Ripple, the company, goes away, XRP is going to keep
9 trading. So, I mean -- maybe if you could be more
10 precise in the question, I can do a better job of
11 answering.

12 Q Well, were there any other reasons that you
13 believed that the XRP Ledger was not centralized other
14 than the factors that you previously mentioned?

15 A I mean, in many ways, XRP is far more
16 decentralized than Ethereum or Bitcoin which the SEC has
17 deemed to be decentralized. So I -- I guess I don't know
18 exactly -- when I think about decentralized versus
19 centralized, I think about it in the context of can a
20 small number of actors control the underlying technology.
21 And, you know, as you have seen from proof of work
22 technologies like bitcoin and Ether, and even things like
23 a 51 percent attack, which have happened in Ethereum
24 classic anyway, you know, I think you couldn't do that
25 with the XRP Ledger which I think again is demonstrating

1 its decentralization.

2 Q Is that because there are other non-Ripple
3 validators who are validating transactions on the ledger?

4 A That would be one reason, yes. Ripple runs a
5 minority of the validators on the -- a dramatic minority
6 of the validators.

7 Q And at what point did Ripple -- the number of
8 Ripple validators become a minority?

9 A Years ago. I don't know exactly when.

10 Q Does that predate your involvement with Ripple?

11 A I don't know the answer to that. It may. It
12 also -- just getting to the nuts and bolts -- I think you
13 may have touched on this as part of -- well, I don't know
14 what, when, but I think about how the XRP Ledger works,
15 the key attribute is who in the participants on the
16 network choose to listen.

17 And so it just fundamentally is different than
18 how other blockchains have worked. And so in order for
19 anyone to control the ledger, it's really dependent upon
20 the exchanges as much as anyone as power centers in terms
21 of what they choose to listen to.

22 And so what I don't really understand are the
23 arguments that XRP Ledger is centralized since there is
24 no actor who can control it.

25 Q Was there a time when Ripple controlled more

1 than 50 percent of the validators on the ledger?

2 A I honestly don't know the answer to that. I
3 mean, certainly when the original XRP Ledger was created
4 prior to Ripple being created, then I would imagine, you
5 know, that there were -- I don't know how many validators
6 there were. I would imagine that Jed McCaleb may have
7 controlled all the validators. I'm not sure. I'm not
8 sure during my tenure what percentage of the validators
9 we controlled and when that may have gone below 50
10 percent.

11 Q If Ripple controlled more than 50 percent of
12 the validators for the XRP Ledger, would you consider it
13 centralized?

14 A I think that really depends. The way I think
15 about, you know, China controls more than 50 percent of
16 the bitcoin validators, the equivalent validators through
17 mining. But again, as I said, the SEC considers that
18 decentralized.

19 Q If you look at page 16, line 11 through 22, you
20 state that one misconception is that Ripple could be
21 successful but XRP would not be successful.

22 Why is that a misconception?

23 A Well, I mean, as I articulate here, I as CEO of
24 Ripple, am the most interested party in making sure the
25 XRP ecosystem is successful. It's hard for me to get my

1 head around if Ripple is successful and our goal is to
2 generate liquidity and trust and utility in XRP, those
3 two things seem to be in opposition.

4 Q Did you believe that XRP's success was related
5 to Ripple's success?

6 A I believed and believe that XRP's liquidity
7 definitely impacts Ripple's success as evidenced by the
8 analysis you were showing me with MoneyGram, the world
9 liquidity at the time of the spreads, et cetera.

10 Does that answer the question?

11 Q Sure. Did you believe that Ripple's interests
12 were aligned with XRP's holders' interests?

13 A I mean, the evidence is that that's not always
14 the case. You made me aware there were some proposals in
15 the open source technology community of the XRP Ledger to
16 make changes to the XRP Ledger which we actually
17 opposed -- we, Ripple, opposed -- that went through
18 anyway. So I don't know how to think about -- you know,
19 are in general interests -- I think it would be
20 circumstance-dependent.

21 Q Why do you emphasize Ripple's XRP holdings?

22 A I'm not sure I characterize it as emphasis, but
23 I'm making the same point that I think in my testimony --
24 I said earlier today which is I'm not going to shy away
25 from the fact that we own a lot of XRP and by extension,

1 we are very interested parties in the health and the
2 success of the XRP ecosystem.

3 Q And why is that?

4 A Because for our -- well, as one example and as
5 we've talked about, for our product to be successful,
6 particularly ODL, the more liquidity in the marketplace,
7 the more efficient the products are.

8 Q And if Ripple sold XRP into the market at a
9 higher price, would that benefit the company as well?

10 A You know, Ripple has been I think very
11 consistent and I think I've been very consistent, and our
12 focus is very much a long-term over, you know, many
13 years. The short-term gyrations of the price of XRP I
14 honestly don't pay a lot of attention to. They don't
15 have much bearing on the company. And so -- and by the
16 way, I've said that publicly.

17 (SEC Exhibit No. 144 was marked for
18 identification.)

19 Q I would like you to take a look at Exhibit 144,
20 page 14, line 8 through page 15, line 6.

21 MR. CERESNEY: Can you identify what it is,
22 Daphna?

23 MS. WAXMAN: Sure. It's a YouTube video of a
24 press conference that you gave in Korea in March 2018.

25 THE WITNESS: Yep, I've got it.

1 BY MS. WAXMAN:

2 Q Okay. At the time that you made the statements
3 that I referenced to you in the transcript, did you
4 believe that XRP's value and price was correlated to
5 Ripple's success and news regarding bank adoption of
6 Ripple's non-XRP products?

7 A I'm sorry, I may have missed the question.

8 Q Sorry. I'll repeat it. I wasn't aware I was
9 sharing my screen so I wanted -- I have a lot of screens
10 going.

11 At the time that you made the statements, did
12 you believe that XRP's value and price was correlated to
13 Ripple's success and news regarding bank adoption of
14 Ripple's non-XRP products?

15 A Well, I think my answer now and then would --
16 my answer then was no and my answer -- sorry. My answer
17 then was no and my answer now is no.

18 Q Well, on line -- the question at the top on
19 line -- beginning on line 10 says, "Does that imply that
20 the expansion or growth of Ripple Net is not correlated
21 to the value of the price of XRP? And what is your
22 outlook regarding the price of XRP?"

23 A I'm sorry, I missed the line 10 where you were
24 reading from. Sorry. I was on the wrong page.

25 "Does that imply that the expansion or growth

1 of Ripple Net is not correlated to the value of the price
2 of XRP?"

3 Q And then --

4 A Yeah.

5 Q And then the question goes -- this is a
6 question posed by someone in the audience. And then the
7 question continues and says, "And what is your outlook
8 regarding the price of XRP?"

9 A Yes.

10 Q And then you continue and you say, "I don't
11 forecast the price of XRP. What I point out is that
12 Ripple is very, very interested in the success and health
13 of the XRP ecosystem and will continue to invest in the
14 XRP ecosystem."

15 What did you mean, continue to invest?

16 A Well, I think we've discussed a number of
17 examples today. MoneyGram, market makers, those would
18 all be examples that would come to mind.

19 Q Then you go on to say, "On the first part of
20 the question, I actually think they're very correlated."

21 And going back to the question, the question
22 is, "What is the expansion of or growth of Ripple Net
23 correlated to the value of the price of XRP?"

24 A Yeah, when I read this, what is in my head,
25 oftentimes people have accused Ripple of signing people

1 up to Ripple Net or what you've described earlier as
2 xCurrent, and that that is not using XRP and they have
3 accused us of being not as transparent about that.

4 I'm trying to be very transparent about that
5 and I've tried to be clear that I think if we get a
6 customer using xCurrent for messaging, the ability to
7 cross-sell or upsell them to ODL is very much possible.
8 And so if we don't get them on xCurrent, the likelihood
9 they're going to cross-selling them to ODL goes way down.

10 So the correlation, which I think when I
11 answered the question, the correlation I didn't think
12 about now is when people join the Ripple network or
13 Ripple Net, they don't have to use XRP. Ultimately I
14 think the likelihood is -- and we're actually seeing that
15 play out is that -- we're seeing it play out because at
16 the beginning of Ripple Net, nobody used XRP. Today I
17 think roughly 15 to 20 percent of the transactions across
18 Ripple Net go through ODL. That's the correlation I'm
19 thinking about.

20 To the extent that usage and growth in ODL is
21 good for the XRP ecosystem, that's good for the XRP
22 ecosystem.

23 Q You said when Ripple Net started out, nobody
24 used ODL. When did people start to use ODL?

25 A I think earlier we talked about that and my

1 recollection is we started testing it in 2018, and I
2 think you refreshed my memory that it went live into
3 production in May October.

4 Q So to ask the question again, at the time did
5 you believe that XRP's value in price was correlated to
6 Ripple's success and news regarding adoption of non-XRP
7 products?

8 A I think -- well, I don't know exactly what I
9 thought then. With the benefit of hindsight, I think we
10 have seen that there is not a correlation between the
11 price of XRP and Ripple activity.

12 Q Well, then you answer the question and you say,
13 "I think they're very correlated."

14 A Yeah. I think what I am referring to when I
15 think they're very correlated is the usage of XRP and the
16 usage of Ripple Net.

17 Where I think there is a conflation in the
18 question, when I -- typically I have gotten questions
19 like this in public formats where people are saying, hey,
20 people are using Ripple Net, xCurrent, but they're not
21 using XRP. And I'm saying that ultimately over time --
22 because again, at the beginning of Ripple Net, there was
23 no ODL product. There was no way to use XRP. Our thesis
24 was in kind of betting about where the future is going to
25 go, is like getting customers using Ripple Net, we have

1 the opportunity to upset, cross-sell On-Demand Liquidity
2 because banks and financial institutions don't want to
3 pre-fund accounts. They don't want to put that working
4 capital out there.

5 And so when I think about the correlation, I
6 think of the correlation of Ripple Net to ODL, not -- a
7 non-ODL-using Ripple Net customer over time, there is
8 going to be a correlation there. And again, we've
9 already seen that grow to 15 to -- plus percent of
10 activity on Ripple Net now is through ODL.

11 Q If you look at page 15, line 8 through page 15,
12 line 20, you say, "One last thought of this and the price
13 of XRP, if you will. I'll share with you something I
14 tell the team internally at Ripple. I spend very little
15 time thinking about the price of XRP over three days or
16 three weeks or even three months. I think about if we
17 are successful in building out the product of xCurrent
18 and expanding the number of users around xRapid, the
19 price of XRP will take care of itself over a
20 three-to-five-year period. We're building something that
21 I think can transform a multitrillion dollar problem
22 around how liquidity is managed. If we are successful in
23 doing that, I feel very optimistic about the future."

24 A When I read that, I feel very excited because I
25 think my testimony today reflects the same.

1 Q So again, did you, at the time, believe that
2 Ripple's building out xCurrent xVia would have a positive
3 impact on XRP price at the time of this interview?

4 MR. SOLOMON: Did you say positive impact on
5 XRP price?

6 BY MS. WAXMAN:

7 Q Well, it says the price of XRP will take care
8 of itself. What do you mean by that?

9 A I believe what I mean is the price of XRP is
10 determined by a multitude of factors and price based upon
11 supply and demand, and it will take care of itself over a
12 long arc of time and I don't think about it in the short
13 term.

14 Q And did you think of XRP -- when you said in
15 the price would take care of itself over a long period of
16 time, did you think of XRP as a long-term investment?

17 A I don't know -- I was thinking about it in the
18 context of what is good for Ripple is to have a highly
19 liquid, highly trusted digital asset, highly efficient
20 digital asset in XRP and I think that my comments then
21 and my comments today reflect that.

22 Q And how many customers went from using xCurrent
23 or xVia to use ODL?

24 A In order of magnitude, 20. I mean, I think we
25 publicly announced we've done live protection ODL

1 transactions with 25 or 26 customers. I don't know how
2 many of them kind of went through -- some we sold as both
3 xCurrent and xRapid at the same time and some, you know,
4 went along the journey.

5 (SEC Exhibit No. 143 was marked for
6 identification.)

7 Q I would like you to turn to Exhibit 143 which
8 is a transcript of a CNN interview dated February 17th,
9 2020, and I would like you to take a look at page 13,
10 line 21 through page 14, line 10.

11 A Sorry, page 13 starting at what line?

12 Q 21. 18.

13 A And you want to finish where?

14 Q Line 10, page 14.

15 A Line 10, page 14?

16 Q Yes.

17 A Right. I'm finished. All right.

18 Q Did you compare Ripple to Amazon?

19 A I think I did.

20 Q And why did you compare Ripple to Amazon?

21 A I was making a business strategy comparison.
22 When I first was introduced to Amazon, it was just a
23 bookseller and they competed in the one vertical of
24 selling books. It wasn't called Amazon. It was called
25 Amazon Books. And I think Amazon did a phenomenal job of

1 leveraging its strengths to enter into other vertical
2 markets, and I think in many ways when I think about
3 blockchain technologies, there are a number of other use
4 cases beyond cross-border payments.

5 Ripple has decided to focus on cross-border
6 payments. Part of our underlying technology around kind
7 of native to our tech stack is the XRP Ledger, which is a
8 very efficient technology and could be used in other
9 vertical use cases. And in that same comparison, books
10 is to Amazon as cross-border payments is to Ripple.

11 Q On line 10 -- on line 5 on page 14, you say,
12 "We view ourselves as a blockchain infrastructure
13 company, the first vertical we've done is cross-border
14 payments. We want to make sure we're winning in
15 cross-border payments before we do another vertical, but
16 we will certainly do other verticals leveraging these
17 technologies."

18 That statement is from February 17th, 2020.
19 Does Ripple still plan to pursue other verticals other
20 than cross-border payments?

21 A Yes.

22 Q Which ones?

23 A I don't know.

24 Q Has it started to pursue other verticals?

25 A Not in any meaningful way. We've done research

1 and will continue to evaluate insurance, or people pitch
2 us on all kinds of things, trade finance. I get emails
3 from people outside. I get people from inside about
4 other vertical opportunities but we've not made any
5 decisions.

6 Q I want to turn to -- strike that.

7 Does Ripple have any plans to wind down
8 xCurrent or xVia?

9 A Well, we don't use those product names anymore
10 but -- so we have already wound down use of those product
11 names but not the capabilities that underlie them.

12 Q I want you to turn to Exhibit 144, which we
13 looked at earlier, which is a transcript of a press
14 conference that you gave in South Korea in March 2018.
15 And I want to direct you to page 24, line 8 through page
16 25, line 2.

17 A Yes.

18 Q You're smiling. Any reason?

19 MR. CERESNEY: That would get into privilege.

20 THE WITNESS: Yes.

21 (Laughter.)

22 BY MS. WAXMAN:

23 Q Okay. Fair enough.

24 You state, "I almost never use the expression
25 cryptocurrency. And the reason is today, these aren't

1 currencies."

2 Are you talking about XRP?

3 A I'm making a broad observation and, you know,
4 we had a discussion early this morning about defining
5 blockchain and, you know, when you can actually say
6 blockchain. Currencies is another word where, as a
7 nonlawyer, when I think about the word currencies, I
8 think about the consumer use case of being able to spend
9 currency.

10 Now, I can use XRP as a consumer currency. I
11 gave you an example earlier today of it not benefitting
12 but making a contribution to Congressman Emmer's
13 campaign. In general, though, I think those who claim
14 and believe that cryptocurrencies are going to replace
15 fiat currencies of G20 markets, I don't buy it. I think
16 the dollar works really, really well. I think the pound
17 works well. I think the yen works, euro, et cetera.

18 Now, for purposes of how Ripple is using XRP as
19 an institutional bridge currency, yeah, it's a currency.
20 I think there is, you know, kind of semantic definitional
21 issues in terms of how I, as a layperson, think about the
22 word currencies and how some in the crypto community
23 think cryptocurrencies are going to evolve.

24 Q So is it your understanding that the use of XRP
25 and xRapid is -- you know, in that context, XRP is a

1 currency?

2 A Yes, I believe in that context, it would fit a
3 classic definition of a currency.

4 Q And when do you think XRP -- you know, this
5 statement, you say -- I interpret this to mean that
6 you're saying XRP is not a currency. So when do you view
7 XRP not as a currency?

8 A As I was just describing, I think those who
9 consider cryptocurrencies to be solving a consumer use
10 case, in G20 markets, the dollar, the euro, the yen, pick
11 your favorite, but I don't really see what problem a
12 digital asset is solving in that context. So in the
13 consumer kind of parlance, layperson's use of the word
14 currency, I don't think about any cryptocurrency as a
15 currency. I think as you have seen the way Ripple is
16 using XRP is unequivocally a bridge currency as we
17 discussed through the ODL flows.

18 (SEC Exhibit No. 137 was marked for
19 identification.)

20 Q I would like you to turn to Exhibit 137 which
21 is a video of an interview you gave on CNBC on January
22 19th, 20 -- the date on the exhibit says January 19th,
23 2020 but I believe the interview is from June 2018.

24 A Okay.

25 Q And I would like you to take a look at page 3,

1 line 21 through page 5, line 3.

2 A Okay.

3 Okay.

4 Q On line 11 and 12 you state, "What we have
5 found is that xRapid is saving them between 40 and 70
6 percent compared to their existing tools for managing and
7 spreading liquidity around." Who are you talking about is
8 saving 40 to 70 percent?

9 A I believe -- my recollection is that one of our
10 customers, could be [REDACTED] has spoken publicly about
11 their savings and referenced that number.

12 Q So is that in reference to savings that [REDACTED]
13 incurred in connection with xRapid?

14 A I believe that that is what I'm referencing.

15 Q Did [REDACTED] provide you hard data confirming
16 costs that they incurred in connection with xRapid and
17 cost savings from xRapid?

18 A Not that I'm aware of.

19 Q Do you know the basis for your statement?

20 A My recollection is the basis for my statement
21 is observations that were made by the CFO of [REDACTED] at
22 the time.

23 Q If you move up, it's talking about the previous
24 paragraph. It says, "We launched xRapid, the product we
25 were just talking about. We launched that as a beta

1 product late Q3, early Q4 of last year. We announced our
2 first pilot customers on xRapid in late Q4. We announced
3 six more in Q1."

4 Are you referring to cost savings incurred by
5 customers who highlighted xRapid? Are you talking about
6 cost savings in the aggregate? Because you don't mention
7 [REDACTED] in the -- I don't see [REDACTED] referenced in
8 relation to your comment.

9 A You know, I don't -- this is two-plus years
10 ago. I don't remember specifically what I'm referring
11 to. My recollection is that that number, 40 to 70
12 percent is coming from the CFO of one of the customers we
13 had worked with.

14 Q But it sounds like you're referencing cost
15 savings that customers told you about in connection with
16 pilots. Is that your understanding or reading of the
17 interview?

18 A My reading is that we found that xRapid can
19 save a customer money and I'm referencing 40 to 70
20 percent. Where exactly that came from, I don't recall.
21 My recollection, my loose recollection is that there was
22 a CFO of [REDACTED] who spoke publicly about some of the
23 savings they have seen.

24 Q Did anyone at Ripple do any analysis in
25 connection with ODL pilot and cost savings?

1 A I don't know.

2 Q Does the cost savings you cite include any
3 rebates, guarantees or incentive payments that you've
4 provided to [REDACTED] or any other customer that piloted
5 xRapid?

6 A I don't know.

7 Q Did you provide rebates, guarantees or
8 incentive payments to [REDACTED] in connection with the
9 pilot?

10 A I don't recall.

11 Q Did [REDACTED] ever sign on to xRapid?

12 A Yes.

13 Q As a customer?

14 A Yes.

15 Q And does Ripple provide payments in the form of
16 rebates, guarantees or incentives in connection with the
17 contract?

18 A I don't recall.

19 Q I would like to show you an exhibit from the --

20 MR. SOLOMON: I'm sorry to interrupt you. It's
21 a little after 4 o'clock. This might be a good time for
22 us to take a break. It could be another short break,
23 right?

24 MS. WAXMAN: Okay. How about 10 minutes?

25 MR. SOLOMON: Thank you.

1 MS. WAXMAN: We're off the record at 4:03.

2 (A brief recess was taken.)

3 MS. WAXMAN: We're back on the record at 4:15.

4 BY MS. WAXMAN;

5 Q Mr. Garlinghouse, while we were off the record,
6 did you have any conversations with the staff?

7 A I did not.

8 MS. WAXMAN: Will counsel please confirm?

9 MR. SOLOMON: Confirmed.

10 MS. WAXMAN: Thank you.

11 BY MS. WAXMAN:

12 Q If you go back to Exhibit 137 where we were
13 talking about earlier your comment that xRapid saves
14 customers between 40 and 70 percent, when you said that,
15 are you talking about pre-funding costs? Are you taking
16 pre-funding costs into consideration?

17 A I don't recall.

18 Q Okay. Take a look at Exhibit 143, page 15,
19 line 16. This is from the CNN interview from 2020.

20 Ms. Chatterly says -- the question is, "What's
21 going on with the price of XRP? And why did Mike
22 Novogratz weigh in on this and suggest it was going to be
23 another bad year in 2020?"

24 And then you say, "You know, I think the short
25 answer is that Mike doesn't fully follow Ripple very

1 closely. There's a lot of things he wasn't -- he wasn't
2 aware of some of the stuff we're doing with MoneyGram. I
3 think, you know, he -- if he watches this, he'll be
4 surprised to hear that we had 54 million of ODL flows
5 last week."

6 Did you think at the time of this interview
7 that increases in ODL flow had an impact on XRP's price?

8 A I think my impression has been the activity on
9 ODL, to the extent it's -- to the extent I can, as a
10 layperson, nonmathematically identify any correlations
11 between ODL activity and the price of XRP, it's a
12 negative one.

13 Q Then why did you refer to Ripple -- MoneyGram's
14 ODL volumes in response to that question about XRP's
15 price and Novogratz' comments that price was going to
16 be -- it was going to be another bad year in 2020?

17 A I don't know what Mike is exactly referencing.
18 I know that -- I recall someone at Ripple ended up
19 speaking to Mike and what I found surprising is he's a
20 shareholder in the company and was largely unaware that
21 we had even signed a deal with MoneyGram.

22 So, you know, I think in my head, what's going
23 on in that conversation is more than just answering the
24 question being asked. It's more thinking about Mike
25 Novogratz, who likes to talk and pontificate about all

1 things crypto and, being a shareholder in Ripple, has
2 amazingly little familiarity about what Ripple is doing.

3 Q If Mike had known about the deal with
4 MoneyGram, do you think he would have a different
5 perception about the direction of XRP's price?

6 A I don't know.

7 Q Well, isn't that what you're suggesting when
8 you answer the question?

9 A What I'm trying to convey is that when I was
10 asked this question, I -- and this is recent enough that
11 I can actually remember -- is that with Mike Novogratz, I
12 was surprised how little he knew about what was going on
13 with Ripple the company. I can understand why, the way
14 the question was answered, it might convey that. I think
15 the relationship that Ripple has with Mr. Novogratz is
16 surprisingly complicated given that he's a shareholder.

17 Q Why reference anything related to Ripple or ODL
18 in connection with the question if Ripple doesn't have an
19 impact on XRP price?

20 A Well, I think -- I mean, I feel like I can say
21 with some certainty that, as I look back over the last X
22 years, Ripple's ability -- my ability to predict what has
23 impacted the price of XRP is terrible. I mean, it seems
24 to me that the price of XRP is largely driven by the
25 whims of the crypto markets, traders and frankly, guys

1 like Mike Novogratz who are not -- you know, he's a
2 trader, not, quote, unquote, an investor and tends to
3 look for trades and arbitrage.

4 Q I would like to show you an exhibit in the
5 other binder.

6 A Okay.

7 (SEC Exhibit No. 224 was marked for
8 identification.)

9 Q If you give me a second, I'll tell you the
10 number. Just one second. It's Exhibit 224.

11 A Okay. I have it open.

12 Q Why don't you take a look at it for a minute
13 and let me know when you're done. Please turn to page 36
14 of the presentation.

15 A Yep, I have it open.

16 Q What does the slide convey in your opinion?
17 What is on the slide?

18 MR. SOLOMON: Daphna, do you mind just asking
19 him if he's seen this, if he's -- just some of the
20 predicate questions? I'm sorry.

21 MS. WAXMAN: Sure. Thank you very much.

22 BY MS. WAXMAN:

23 Q So what is Exhibit 224?

24 A It appears to be maybe a quarterly deep dive
25 about three years ago, just shy of three years ago, about

1 xRapid. So it's before obviously it was in beta or alpha
2 or anything, so it was just kind of a preview of here's
3 where we are, here's where we're going with the product,
4 is my guess.

5 Q And have you ever seen this document before?

6 A I don't recall.

7 Q Have you ever seen any iterations of this
8 document?

9 A I don't recall.

10 Q Do you know who prepared this document?

11 A I do not, no. No, I don't know. No.

12 Q Well, first of all, if you turn to slide 36,
13 the title of the slide says xRapid payment demand can
14 lead to XRP price appreciation. And there is a -- kind
15 of a visual showing that -- that kind of shows that's --
16 that lends itself to that statement.

17 Do you know, did people at Ripple believe that
18 increased payment demand, increased ODL volume could lead
19 to XRP price appreciation as evidenced by this slide in
20 Exhibit 224?

21 A It would appear to me that whomever created
22 this slide thought that could potentially happen as the
23 headline says it can lead to price appreciation. I don't
24 know who created the slide or what they thought they
25 might have hoped would happen, but the slide, as the

1 headline says, seems to suggest that it could or can lead
2 to XRP price appreciation.

3 Q Was that something that people were thinking
4 about at the time, or believed?

5 A Well, we certainly think about the value in XRP
6 and price is component, but we think about, as we've said
7 multiple times today, around liquidity as a more
8 important factor because that is -- drives the success
9 and the economic efficacy of ODL.

10 Q But to answer my question, did people at the
11 time believe XRP -- increase in XRP payment demand would
12 lead to an appreciation in XRP price?

13 A Well, to be fair, as you're pointing out,
14 someone at Ripple clearly did. So if your question is
15 did someone at Ripple think that someone created this
16 slide, so I suppose someone thought that might -- that
17 was a hypothesis that existed.

18 Q Was that a belief shared among authorize than
19 one person at Ripple?

20 A I don't know. When I have thought about the
21 success of what is now called ODL, and as we have
22 discussed today, I have thought about liquidity first and
23 foremost as a critical component.

24 Q In Q4 2017, which is -- I understand the date
25 on the PowerPoint, did you believe that xRapid payment

1 demand could lead to XRP price appreciation?

2 A I don't know what I thought in Q4 2017.

3 Q Did you have any thoughts about how ODL --
4 increased ODL demand could impact XRP price?

5 A The only thoughts I have is based upon some of
6 the interviews you have refreshed my recollection with
7 during the course of the day today, which seems to -- the
8 interviews certainly seem to suggest that I thought that
9 I was focused on liquidity of the XRP ecosystem first and
10 foremost.

11 Q And why was liquidity something that you
12 focused on first and foremost?

13 A Well, as we discussed in the analysis with
14 MoneyGram, liquidity creates tighter spreads. Tighter
15 spreads creates a more efficient tool for cross-border
16 payments.

17 (SEC Exhibit No. 221 was marked for
18 identification.)

19 Q I would like you to take a look at Exhibit 221.

20 A Okay.

21 Q Just take a moment to look at it, to read it
22 over and let me know when you're done.

23 A Okay.

24 Q Do you recognize what's been marked as Exhibit
25 221?

1 A I recognize it in concept, not necessarily
2 specificity.

3 Q What is Exhibit 221?

4 A It is a blog post on an internal blog we use
5 at -- I'm sorry, an external log we have at Ripple called
6 Insights that we use to comment publicly on various
7 topics.

8 Q And it says that Asheesh Birla drafted this.
9 Did you review the materials before it was posted
10 publicly?

11 A Not to my knowledge.

12 Q On the second page, third paragraph, it talks
13 about cost savings from -- to financial institutions
14 using xRapid and conclusions that the company had come to
15 regarding cost savings from customers piloting xRapid.
16 And it says, "For payments in the critical remittance
17 corridor between the U.S. and Mexico, financial
18 institutions using xRapid saw savings of 40 to 70 percent
19 compared to what they normally pay foreign exchange
20 brokers."

21 This doesn't reference cost savings related to
22 lack of -- cost savings related to pre-funding or not
23 needing to pre-fund. Did you understand that the 40 to
24 70 percent figure was related to cost savings on a
25 transaction based from transactions?

1 MR. CERESNEY: I'm sorry, he didn't write this
2 blog post. Do you mind just repeating the question that
3 you asked him? I didn't understand.

4 BY MS. WAXMAN:

5 Q Sure. The sentence refers to cost savings and
6 it doesn't reference cost savings from pre-funding. It
7 seems to say cost savings as compared to -- cost savings
8 from FX fees. Is that your understanding as well?

9 A As I mentioned, I am not the author nor do I
10 recall reading it. I can only interpret what -- the same
11 thing that I'm reading it now, maybe for the first time.
12 So I don't have a lot to discern other than what's on the
13 piece of paper.

14 (SEC Exhibit No. 239 was marked for
15 identification.)

16 Q Okay. If you would turn to Exhibit 239.

17 A Yes, I am there.

18 Q And just if you wouldn't mind reading it to
19 yourself and let me know when you're finished.

20 A Okay.

21 Q In the middle of page 2, you talk about -- the
22 paragraph that begins, "We signed 11 xRapid production
23 customers." It says, "We signed 11 xRapid production
24 customers in 2018 and brought three live in Q4 alone.
25 Early customer results report no wire fees (as opposed to

1 25 to 35 per payment previously), 10 times lower FX
2 costs, and payments in two minutes."

3 Did you have an understanding at the time that
4 you wrote this that xRapid provided 10 times lower FX
5 costs to customers?

6 A I would imagine I had an understanding at the
7 time of whomever was participating in helping me draft
8 this had parsed some data. I have no reason to believe
9 that that wasn't coming from a grounded place but, you
10 know, I think depending upon what customer we're talking
11 about, FX costs from MoneyGram as the second largest
12 remittance company on the planet. Might be very, very
13 different for a player like [REDACTED] that is just getting
14 started.

15 Q Do you know of any analysis regarding lower FX
16 costs that Ripple did?

17 A I don't off the top of my head, no.

18 Q We talked about payments that Ripple made to
19 ODL customers under, you know, work orders and previously
20 you mentioned that Ripple paid certain incentives and it
21 also provided -- we saw in the MoneyGram document --
22 rebates.

23 What was the purpose of the rebate?

24 A I mean, I guess my first question would be
25 which rebate specifically? As I think I testified

1 earlier today, I don't really parse rebates versus
2 incentives. I kind of view it as if there is a flow of
3 funds back to a customer, overall I think of that as an
4 incentive. But if there is a specific rebate you're
5 wondering about, I would be happy to try to address it.

6 Q Did the rebates reimburse the customer when the
7 FX cost was worse than spot?

8 A Without looking at a specific agreement, it
9 would be I think difficult for me to comment on that
10 specifically.

11 Q If you go back to Exhibit 224, page 28.

12 MR. SOLOMON: Just so you know, you can keep
13 going but if you're seeing some of us dropping off, there
14 is something going on with WiFi. As long as you can see
15 Brad, we can hear you but I just wanted to let you know
16 that for the record. Sorry.

17 MS. WAXMAN: That's okay. I got notification
18 that Andrew is no longer in the meeting. Is he no longer
19 here?

20 THE WITNESS: He is in the room, just to be
21 clear.

22 MR. CERESNEY: I am here. Something is going
23 on with the WiFi.

24 THE WITNESS: Does that work?

25 MR. CERESNEY: Yeah.

1 THE WITNESS: That might be the issue. There.

2 All right. But we can keep going.

3 BY MS. WAXMAN:

4 Q So if you turn to Exhibit 224, page 28.

5 A Yes.

6 Q So it talks about -- the title of the slide is
7 Ripple to Offer FX Rate Guarantees. When did Ripple
8 offer rate guarantees?

9 A I don't recall.

10 Q Did Ripple offer --

11 A As a macro observation, the rate guarantees
12 would be something we -- you know, customers might be
13 averse to -- concerned about adopting xRapid because of
14 potential volatility in FX rates which you're seeing in
15 that chart. And so by removing that risk and getting
16 customers on board and getting kind of that flywheel we
17 talked about earlier this morning going, we were able to
18 get the momentum going which actually also reduces the
19 volatility which means there's fewer needs for rate
20 guarantees.

21 Q Does this chart show that at certain times, FX
22 costs through xRapid were worse than spot?

23 A Yes. It also shows sometimes it's better than
24 spot.

25 Q Yes. Would customers use xRapid if Ripple

1 didn't provide these rate guarantees?

2 A Well, I mean, I think, you know, this is a
3 document from 2017 and I think, you know, what we have
4 seen is that as you get going, as customers -- well, as
5 the markets get more mature and my prediction would be if
6 you looked at this same chart today instead of for July
7 2017 through October 2017, but looked at it, you know,
8 today, you would see much less variability --

9 MR. SOLOMON: I think her question was whether
10 customers would still use xRapid ODL without the rate
11 guarantees.

12 Wasn't that your question, Daphna?

13 MS. WAXMAN: Yes, it was. Thank you.

14 THE WITNESS: My belief and recollection is the
15 answer is yes because we certainly, as we sign up
16 customers, to my -- I do not believe that every customer
17 we sign to xRapid or now ODL has rate guarantees but I
18 don't -- I would have to review all the contracts to know
19 that definitively.

20 BY MS. WAXMAN:

21 Q So your testimony is they would use the product
22 even though, on certain transactions, they were getting
23 worse rates than spot?

24 A My testimony is that as this chart shows,
25 there's sometimes they're getting better rates than spot,

1 sometimes they're getting worse rates than spot, and I
2 think that anybody customer who would look at the whole,
3 you know, this chart doesn't mathematically show what the
4 net impact is. I think most customers would look at
5 holistically.

6 I do think in early time, in getting customer
7 adoption and market activity, offering what I'll just
8 call incentives -- rate guarantees, incentives, rebates
9 are all kind of the same bucket for me -- getting them
10 comfortable and moving forward, it would have been the
11 goal at the time. And as we're able to demonstrate
12 through time that the FX rate is closer to spot,
13 particularly over the holistic view, that that would not
14 be a barrier to adoption.

15 Q But when the FX rate is worse than spot, Ripple
16 guarantees -- pays them the difference?

17 A I would have to -- we would have to go contract
18 by contract and I wouldn't know top of mind which ones we
19 have rate guarantees on and which ones we don't.

20 Q Does Ripple publicly disclose the fact that it
21 provides rate guarantees to customers?

22 A No.

23 Q Why not?

24 A Because we're a private company. We have no
25 obligation to do so. I mean, the irony of the question

1 to me is that Ripple is the most transparent company in
2 the crypto space by like an order of magnitude and, you
3 know, I don't think, as a private company, we have any
4 requirement to disclose those details and so we don't.

5 Q Did you earlier -- did you testify earlier that
6 you were focused as CEO on increasing Ripple's
7 transparency in relation to XRP and Ripple's XRP
8 products?

9 A You said SEO at the beginning of that question.

10 Q Sorry, I meant CEO.

11 A Oh. Yes, I certainly am a big public advocate
12 of more transparency in the crypto marketplace.

13 Q Wouldn't the fact that at times the rate
14 through ODL is worse than spot, isn't that valuable
15 information?

16 A It's also valuable information that sometimes
17 it's better than spot.

18 Q Did you ever disclose anything about the rates
19 that customers received in connection with ODL?

20 A I'm not aware that we have any public
21 statements about the rates. We may share with customers
22 some of those things but I'm not aware that we've made --
23 well, by the way, I shouldn't be so certain of that. I
24 am not aware. We may have made statements about some of
25 that somewhere.

1 Q Have you heard of the term slippage?

2 A I have heard that term.

3 Q And what does that refer to?

4 A My layperson's understanding is, you know,
5 maybe spreads and slippage are, in my loose definition,
6 kissing cousins. I can say that as a Kansan.

7 Q Thank you but what is your understanding of the
8 term slippage in the context of ODL?

9 A I think of them as -- slippage as related to
10 spreads and if markets are imbalanced in some way, you
11 might have slippage in bid-ask dynamics in a market.
12 That is my layperson's understanding.

13 Q We were talking about guarantees that Ripple
14 provides when the FX rate is worse than spot. Does it
15 also provide guarantees if the implied rate is worse than
16 the executed rate in connection with ODL?

17 A I am not familiar off the top of my mind with a
18 specific contract on that point.

19 (SEC Exhibit No. 146 was marked for
20 identification.)

21 Q I would like you to turn to Exhibit 146 in the
22 third party binder.

23 A I'm there.

24 Q Sorry. If you could just give me one second.

25 For the record, Exhibit 146 is an interview you

1 provided in March 2018 on CNBC, and if you take a look at
2 page 2, line 3 through line 12.

3 A Line 3 through line 12 on page 3, is that
4 right?

5 Q Page 2.

6 A Page 2. My apologies.

7 MR. CERESNEY: Page -- I'm sorry.

8 BY MS. WAXMAN:

9 Q I'm talking about the transcribed pages.

10 A Okay. Lines 3 through 12, first paragraph.

11 Q Yes, correct. You say, "Early on Ripple, the
12 company, took the point of view of look, how do we use
13 XRP to solve an institutional use case. Our goal hasn't
14 been to go out and curry favor with speculators. It's
15 really been to solve a big problem around how payments
16 flow cross-border for banks, for payment providers.
17 We've been very fortunate by focusing on that segment and
18 signing up really over a hundred customers now ranging
19 from some of the largest banks in the world to, you know,
20 small banks."

21 Why do you say that Ripple's goal hasn't been
22 to go out and curry favor with speculators?

23 A I think particularly during that time per,
24 there was a lot of rampant speculation in the crypto
25 markets. And, in my judgment, particularly in the ICO

1 market, some were aggressively trying to court
2 speculative interests in various digital assets and I
3 think we have tried to clear about -- we're trying to
4 solve an institutional use case.

5 As I think you're seeing through a period of a
6 couple of years of various media transcripts and what
7 have you, I think we've been pretty consistent with how
8 we're approaching that.

9 Q At any point, did Ripple prioritize initiatives
10 to grow speculative trading in XRP?

11 A I don't recall any projects to prioritize
12 speculative trading in XRP.

13 Q In Q2 2017 and Q1 2017, was there discussion
14 amongst Ripple employees to increase speculative trading
15 in XRP?

16 A I don't recall.

17 Q Could you turn to the other binder? I'll let
18 you know what exhibit in a second. One moment. Sorry
19 about that.

20 A No problem.

21 (SEC Exhibit No. 198 was marked for
22 identification.)

23 Q Exhibit 198.

24 A Okay.

25 Q What is Exhibit 198?

1 A It appears to be an email from Patrick Griffin
2 to me with the subject line of Q2 XRP plan update.

3 Q And who is Patrick Griffin?

4 A Patrick Griffin was employed by Ripple for
5 five-ish years, holding a number of positions in kind of
6 strategy, business development, things like that. Sales.
7 He ran sales for a while too.

8 Q Did he report directly to you?

9 A Not originally. He ended up reporting to me I
10 guess probably when I became CEO.

11 Q During this time period in March 2017, did he
12 report directly to you?

13 A Yes.

14 Q And does this refresh your memory whether there
15 was an internal priority to broad XRP speculative trading
16 volume in or around that time?

17 A Based on the first two lines, it appears to me
18 that, yes, he was working on projects to drive XRP
19 speculative trading volume.

20 MR. SOLOMON: Her question was did it refresh
21 your recollection about people talking inside the company
22 about speculative trading volume of XRP. I just want you
23 to be precise when you're answering her question and not
24 a --

25 THE WITNESS: It doesn't actually -- you know,

1 I get a lot of emails per day. I don't recall this
2 email. I don't recall XRP speculative trading volume
3 being a priority for the company.

4 BY MS. WAXMAN:

5 Q Did you ever discuss with anyone at the company
6 the goal of increasing XRP speculative trading volume?

7 A I don't recall.

8 Q Was that a priority for the company in 2017?

9 A I don't recall.

10 Q Sorry. One second.

11 When did Ripple put its XRP holdings into
12 escrow?

13 A December of 2017, I believe.

14 Q Did you have any involvement in that decision?

15 A Yes.

16 Q What was your involvement?

17 A I think I was the CEO at the time, yeah. I was
18 the CEO, so I'm sure ultimately -- I mean, I'm sure there
19 were a series of recommendations made and I'm sure I
20 asked various questions, but ultimately that was my
21 decision.

22 Q Why did the company decide to put its XRP
23 holdings into escrow?

24 A From my point of view -- and maybe this is --
25 my recollection, there was a lot of misinformation and

1 those who were I think spreading misinformation about
2 Ripple's behavior and potential impact on the XRP market,
3 and it was important to me that we remove that kind of
4 speculation.

5 My viewpoint at the time, I remember saying
6 unit may be in various emails, was that the -- it would
7 not be in our best interests to be bad actors in XRP
8 markets.

9 As certainly we've discussed earlier today, our
10 goal has been and is today to be a constructive actor and
11 not impact the price of XRP one way or another. So to
12 engage in -- so I never looked at it as, well, we would
13 never aggressively sell XRP anyway, and so putting them
14 in -- putting the XRP in escrow, in a time-sealed escrow,
15 seemed a little bit like, okay, we can do that. And I
16 think that removed some of the misinformation in the
17 marketplaces.

18 Q Was that a big decision for Ripple?

19 A Yeah, for sure.

20 Q Why?

21 A Well, you're reducing flexibility of an asset
22 the company owns. It's valued by, you know, I don't
23 remember what the price at the time was but it certainly
24 was hundreds of millions or more, and if you're locking
25 that up, that's a big decision for the company to make.

1 Q Did the company believe that the escrow
2 announcement or the announcement that it intended to put
3 its holdings into escrow would increase speculative
4 trading in XRP?

5 MR. SOLOMON: Did you hear the question?

6 THE WITNESS: Did the company believe that
7 putting --

8 MR. SOLOMON: Did the company believe. I just
9 want to make sure --

10 MS. WAXMAN: I'll ask a new question.

11 BY MS. WAXMAN:

12 Q Did you believe that the escrow announcement
13 would increase speculative trading in XRP?

14 A I don't recall.

15 Q Did anyone at the company have that belief?

16 A I'm sure that there's some that thought that --
17 had that believe. I mean, I think others outside of
18 Ripple had that belief.

19 Q Did you discuss with anyone their beliefs that
20 the escrow announcement would help increase speculative
21 XRP trading?

22 A I don't recall any specific conversations.

23 Q Did you believe that the escrow announcement
24 would lead to an increase in XRP price?

25 A I don't recall.

1 Q Did anyone at the company believe that the
2 escrow announcement would lead to an increase in XRP
3 price?

4 A I expect there's someone who did, yes.

5 Q Did you ever discuss that belief with anyone at
6 Ripple?

7 A I don't recall. Well, let me restate that. I
8 don't recall discussing it prior to making the decision.
9 After making the decision, I recall discussing with one
10 particular employee who wanted compensation changes
11 because he felt that it had, I think that's not clear to
12 me.

13 Q And what employee are you talking about?

14 A A gentleman named Miguel Viaz.

15 Q So you discussed the impact of the escrow
16 proposal on XRP's price after -- at what point?

17 A We discussed his belief about the impact of the
18 escrow on the price of XRP.

19 Q And are you talking about the announcement that
20 Ripple made regarding its plans to put its XRP holdings
21 in escrow?

22 A I think that's fundamental to what the actual
23 conversation was because depending upon what you believe,
24 you're going to -- I think he painted a picture that the
25 announcement did affect the price. I think -- it's been

1 a long time but my recollection was that the price of XRP
2 then and continues to be highly correlated with what's
3 going on in the overall crypto market, and the
4 performance tends to be much, much, much more correlated
5 with what the rest of the crypto market is doing as
6 opposed to any particular event happening on behalf of
7 Ripple.

8 Q Did you have a specific understanding of the
9 impact of the May 2018 announcement about the escrow on
10 XRP's price?

11 MR. SOLOMON: I'm sorry, did he have a specific
12 what? I just missed the first part of it.

13 MS. WAXMAN: Understanding.

14 MR. SOLOMON: Uh-huh. Of?

15 MS. WAXMAN: Of whether the announcement about
16 Ripple's plans related to the escrow had an impact on
17 price, XRP price.

18 THE WITNESS: It -- sorry. Now that we've gone
19 through it, the high order question was did I have a
20 perspective on whether the announcement did?

21 BY MS. WAXMAN:

22 Q Did you have any understanding that the
23 announcement impacted XRP's price?

24 A I did not.

25 (SEC Exhibit No. 203 was marked for

1 identification.)

2 Q I would like you to take a look at Exhibit 203.

3 A Okay, I'm there.

4 Q What is -- do you need a minute to look at it?

5 A Would you like me to read the whole proposal?

6 Q Yeah, if you don't mind.

7 A Okay.

8 Q Do you recognize what's been marked as Exhibit
9 203 and the escrow proposal that's referenced in 203?

10 A Do I recognize it? No. Do I acknowledge that
11 it's an email that I received in 2017? Yes.

12 Q What is the proposal that's in Exhibit 203?

13 A It is to lock up the XRP Ledger's escrow
14 feature, 55 billion units of XRP.

15 Q And did someone send you the proposal?

16 A Yes.

17 Q And who sent it to you?

18 A Patrick Griffin.

19 Q And do you know who drafted the proposal?

20 A I do not.

21 Q On the first page, it talks about the
22 objectives related to the proposal. It says -- and I'm
23 in the middle of the page on the first page of the
24 attachment. It says, "Generate at least two times more
25 2017 XRP bookings than currently forecast. Stimulate

1 immediate increase in volume and price appreciation. And
2 accelerate needed liquidity to support payment flows."

3 Did you agree with the objectives that are in
4 the exhibit?

5 A I have no recollection of whether or not I
6 agreed with the objectives at the time.

7 Q I apologize if I asked this earlier. What
8 objective did the company hope to achieve by establishing
9 the escrow?

10 A The objective I subscribed to as CEO at the
11 time -- CEO, I think -- was removing this kind of
12 overhang that those who were skeptical about what Ripple
13 was doing, those who were skeptical about the XRP market,
14 I felt it was, you know, an unfounded concern that Ripple
15 would ever do things to hurt the XRP market by virtue of
16 our supply or the potential introduction of supply to the
17 XRP market. So my overarching goal was to remove that
18 what I'll call thud, the misinformation from the broader
19 XRP markets.

20 Q When you say -- when you use the term skeptics,
21 who are you referring to?

22 A Those in the crypto community who were not --
23 who had a particular belief about their own projects. I
24 mean, oftentimes they're -- you know, bitcoin maximalists
25 are an example of people who have generally been skeptics

1 of Ripple.

2 Q Are you talking about speculators who were XRP
3 holders who were purchasing XRP as a speculative
4 investment?

5 A No. I'm talking about in the community of
6 people who are very interested in digital assets and
7 blockchain, my experience is that there are those who
8 subscribe -- who are believers -- and I mean that word
9 almost in a religious sense -- in a particular view of
10 how their projects will evolve and impact the world.

11 And particularly for early crypto believers, I
12 think many were very skeptical of Ripple and skeptical of
13 XRP because -- well, one of the reasons is because the
14 crypto community was largely of the mind of how do we
15 down with governments, down with banks. And Ripple was
16 taking the point of view of, hey, we're going to curry
17 favor with governments and we're going to sell to banks.
18 So when I say skeptics, I'm talking about those
19 communities.

20 Q Who specifically are you talking about when you
21 refer to skeptics? I'm not clear. Is there a specific
22 group of people?

23 A I'm referring to groups of people -- and I used
24 a couple of examples already. I'll highlight bitcoin
25 maximalists would be one example of a group of people who

1 believed bitcoin would be the only digital asset and all
2 other digital assets would go away. Those people by
3 definition would be skeptical of what Ripple was doing
4 and skeptical of XRP.

5 Q Why would people who hold bitcoin have a
6 concern with Ripple's holdings in XRP?

7 A I mean, part of my answer would be, you know,
8 best to ask them. I would speculate that my experience
9 is those are people who believe in certain dynamics of
10 how crypto, for example, should be distributed. So they
11 believe in mining as a more fair way to distribute the
12 rewards of digital assets.

13 So there are a number of reasons why I think
14 Ripple and XRP have been -- had its fair of skeptics.
15 One of them, again, is because we've tended to try to
16 partner with governments and tried to partner with banks,
17 and they were generally antigovernment, antibank. One is
18 by virtue of the XRP was, you know, pejoratively
19 described as pre-mined versus those like bitcoin and
20 ether that are still being mined, and the supply changes.
21 Those are a handful of reasons.

22 So when I refer to skeptics, those are all
23 examples of communities I think were skeptical.

24 Q My understanding of the proposal is that the
25 proposal refers to the skeptics as those people who are

1 purchasing XRP as an investment or as -- as an
2 investment. Is that not your understanding?

3 A Well, when I use the word skeptics, I'm
4 referring to those communities I was describing to. The
5 use of skeptics here, you'll have to point me to where
6 it's being used.

7 Q At the very top of the page under Executive
8 Summary, number 3, it says, "As we look at the reasons
9 why this is the case, the clear message we're getting is
10 that the supply of XRP in the market is too uncertain for
11 speculators to be comfortable being more active."

12 So my question is, did XRP holders, did they
13 have a concern -- were they concerned that Ripple would
14 go ahead and sell the XRP that it had in its possession?

15 A I would certainly not feel comfortable speaking
16 on behalf of people that I don't know nor understand
17 their motivations for why they may have been holding XRP.
18 Number 3 that you're referencing here to me is not
19 referring to XRP holders. It might be referring to
20 crypto traders. But again, I think earlier maybe we were
21 talking past each other, and so I was using the word
22 skeptics. Here we're talking about speculators and I
23 think my guess -- and I would be speculating myself -- is
24 that the author was referring to crypto speculators, not
25 necessarily just XRP speculators. As I'm sure you're

1 well aware, there is a lot of just pure speculative
2 trading that happens in the crypto markets.

3 Q And when you refer to skeptics, does that
4 include XRP holders and XRP purchasers on the secondary
5 market?

6 MR. CERESNEY: When he referred to skeptics
7 here just now?

8 MS. WAXMAN: Yes, yes, yes.

9 THE WITNESS: No. Are we talking past each
10 other?

11 MR. CERESNEY: I think you are.

12 Go ahead. Ask the question.

13 THE WITNESS: Sorry.

14 BY MS. WAXMAN:

15 Q I think the document speaks for itself.

16 MR. SOLOMON: Daphna, it's 5:14. It's been an
17 hour and 10 since the last break. Could we take another
18 short break since it's getting into the late afternoon
19 here?

20 MS. WAXMAN: Sure.

21 MR. SOLOMON: Thank you.

22 MS. WAXMAN: It's 5:15. We're off the record.

23 (A brief recess was taken.)

24 MS. WAXMAN: We're back on the record at 5:28.

25 BY MS. WAXMAN:

1 Q Mr. Garlinghouse, while we were off the record,
2 did you have new conversations with SEC staff?

3 A No, I did not.

4 MS. WAXMAN: Counsel, will you please confirm?

5 MR. SOLOMON: Confirmed.

6 (SEC Exhibit No. 229 was marked for
7 identification.)

8 BY MS. WAXMAN:

9 Q I would like you to take a look at Exhibit 229.

10 A Okay.

11 Q Why don't you take a moment to look at it. Let
12 me know when you're done.

13 A All right.

14 I'm pretty much done. I didn't read all of my
15 original email. I just read Antoinette's email.

16 Q That's fine. I'm just going to ask you about
17 her email. Who is Antoinette O'Gorman?

18 A Antoinette was at the company when I joined and
19 shortly after I joined, got promoted to chief compliance
20 officer and left the company in the spring of 2018.

21 Q And what was her role while she was at the
22 company?

23 A Chief compliance officer.

24 Q So did she send this email after she left the
25 company?

1 A Yes.

2 Q And do you recall receiving this email at the
3 time?

4 A Vaguely, yes.

5 Q And what do you recall about it?

6 A I remember thinking that Antoinette -- a little
7 bit of context. When Antoinette left, she rented a
8 Sprinter van and was doing a walkabout across the United
9 States and occasionally sending photos from her various
10 stops. So I remember thinking that I was intrigued that
11 she had taken the time to write it and send more photos.

12 Q With regard to the substance of the email and
13 her comments on it -- strike that.

14 What is she commenting on in the email?

15 A Well, she's commenting on a lot.

16 MR. CERESNEY: I think she means what is she
17 responding to?

18 THE WITNESS: Oh. She -- is that --

19 BY MS. WAXMAN:

20 Q Yes. Thank you, Andrew.

21 What is she responding to?

22 A She's responding -- one of the things that I
23 have done with some regular cadence was sending out to
24 Ripple investors, Ripple shareholders, a kind of -- I
25 think for a while we might have sent monthly and then we

1 switched to sending quarterly kind of updates about how
2 their company was doing. So she's replying to that email
3 from Q2 of 2018.

4 Q So did you send a quarterly update to Ripple's
5 shareholders? Is that the first email in the chain?

6 A Yes.

7 Q The update, did you write that yourself?

8 A I would call myself the editor, not the author.
9 But I certainly reviewed it in its entirety.

10 Q And are you responsible for everything that was
11 sent in the email?

12 A As the CEO of the company, I would say yes. As
13 I said, did I draft the email? No. But I'm not trying
14 to shy away from -- it was sent on my email account.

15 Q Why is she sending you this email?

16 A I would be speculating about why she sent the
17 email. My speculation is she's well-intended and intends
18 to be constructive and I think her intentions are good.

19 Q Did she express a concern that some of the
20 statements in your email were not accurate?

21 A I mean, I'm not sure that I would use the words
22 that she's expressing there are not accurate. Her word
23 choice was sloppy.

24 Q In the email, she says -- in the second
25 paragraph, she says, "I can't figure out why we continue

1 to say things like 'xRapid is alleviating institutions'
2 pre-funding needs so they can instead put that working
3 capital to use in other ways.'"

4 She's quoting you. She's quoting a sentence
5 from your email, earlier email.

6 A Yes.

7 Q And then she says, "xRapid users must pre-fund
8 their accounts on the outbound exchange."

9 Is that true?

10 A Today, no. At the time it was written, at the
11 time she wrote it, I understand her point. I think she
12 misses the point of where we were at the time and where
13 we're going.

14 If you only pre-fund it one exchange -- today
15 let's pick -- I'll make up a fictional Bank of Waxman.
16 You would pre-fund it 10, 20, depending on the size of
17 the bank, 30 different destination currencies, and you
18 would have that dormant capital at all of those different
19 currencies, all these different banks that have the
20 overhead associated with that.

21 If you're only pre-funding at a digital asset
22 exchange to one account, that's much more efficient use
23 of capital in how that is managed than if you're doing it
24 20 or 30.

25 Q So just going back to the initial question, so

1 her statement that xRapid users must pre-fund their
2 accounts on the outbound exchange, was that true at the
3 time?

4 A Yes, that would have been true at the time that
5 an xRapid user -- I mean, well, as we went through with
6 the MoneyGram diagrams earlier today, they showed that
7 they onboarded to Bitstamp, right? So the benefit is,
8 again, that they, instead of pre-funding at multiple
9 banks with longer durations, they can do that in more --
10 for many different destinations with one account.

11 Today that is not true and, again, when we
12 think about where the world goes, through XRP
13 origination, customers don't onboard at a sending
14 exchange because they are buying the XRP from us which
15 reduces costs and improves the efficiency with those
16 customers.

17 Q So if that's -- her statement, though, was
18 true, why do you say that xRapid was alleviating
19 institutions' pre-funding needs?

20 A So for pre-funding, I guess if I'm going to be
21 super crisp and precise, needs is a plural so maybe --
22 what she is saying is xRapid's alleviated institutions'
23 pre-funding need. That would not be true because you
24 would say, well, there might still might be a singular.
25 The needs is you need to -- using the Bank of Waxman as

1 the hypothetical example, across many accounts versus
2 one.

3 Q Today you said xRapid customers don't need to
4 pre-fund their accounts on outbound exchanges. Is that
5 your testimony?

6 A We have a number of customers live today,
7 meaning in Q3 of 2020, that use XRP origination and
8 therefore they can -- they no longer need to worry about
9 onboarding or origination of XRP purchases because they
10 can purchase the XRP from us.

11 Q What about on the outbound exchange?

12 A They don't have an outbound -- I mean, using
13 MoneyGram as an example, they don't have to have an
14 account at Bitso.

15 Q Right, because they're selling the XRP.

16 A Correct.

17 Q Did you ever discuss Antoinnette's email with
18 anyone else at Ripple?

19 A No. I mean, as you can tell from the email
20 chain, despite Antoinnette's request, I forwarded it to
21 Monica. Her team is typically the author of the
22 underlying email and I thought it was useful for her to
23 see some feedback.

24 Q Other than forwarding it, did you discuss
25 Antoinnette's statements about pre-funding?

1 A Not that I can recall.

2 Q In the following paragraph, Antoinette writes,
3 "It's unclear (to me, at least) how pilot users save that
4 much in fees when we waived most of the fees for pilots
5 and supplemented the cryptocurrency conversion cost if it
6 went against the pilot user."

7 Is she right to question whether there are cost
8 savings for xRapid pilot customers?

9 A You know, I have a lot of fondness for
10 Antoinette as our chief compliance officer. I would not
11 hire her as our CFO. So if I'm getting analysis from
12 our -- I'm getting financial analysis from our former
13 chief compliance officer, I'm not going to put as much
14 weight in that as the people that are currently employed
15 and trained to make those analyses and evaluations.

16 Q Did you ever discuss with Ripple's CFO whether
17 ODL pilot customers experienced cost savings at or around
18 the time of this email or at any time?

19 A I don't have any specific recollection at or
20 around the time of this email. Did I ever discuss with
21 our CFO things like cost savings from ODL? I'm sure that
22 I did at some point.

23 Q And who was the CFO that you had those
24 discussions with?

25 A Just to be clear, I don't have a specific

1 recollection of a specific conversation. I also
2 realize -- I'm certain that at some point over the course
3 of the last two or three years that the CFO, Ron Will,
4 and I would have discussed various analyses that are
5 being done or otherwise about something like this.

6 Q We've spoken a lot today about the potential
7 benefit to customers for using ODL and we've spoken about
8 statements that you've made regarding specific cost
9 savings from using ODL at the time. I know you've said
10 that you understood there was a potential for cost
11 savings but I think some of the statements referred to
12 actual cost savings.

13 Do you have any specific recollection of
14 conversations that you had analyzing specific costs
15 related to ODL for users or specific cost savings to ODL
16 users?

17 A I don't have any specific recollections. I
18 mean, just because we're having this email open, I'm
19 presuming that [REDACTED] the founder of [REDACTED]
20 [REDACTED] is quoted accurately and we're not putting words in
21 his mouth about his view of cost efficiency of xRapid. I
22 would not conflate MoneyGram's analysis as the second
23 largest remittance company on the planet to someone like
24 [REDACTED] or other players and the potential cost
25 savings they might see.

1 Q How is it that you don't have a specific
2 understanding of the specific cost savings related to
3 ODL?

4 MR. CERESNEY: I think he has testified about
5 his understanding. I don't think he lacks an
6 understanding of the specific cost savings.

7 MR. SOLOMON: I think what he's saying is he
8 doesn't have a -- if you have a document to show him or
9 an email to show him, that's fine but in terms of a
10 memory test about conversations he's had, it's not fair
11 to ask him about that. He said in general he had an
12 understanding and he's articulated what his general
13 understanding was. Specific issues tied to the
14 document --

15 MS. WAXMAN: I'm sorry. I don't think the
16 reporter can hear you, nor can I.

17 MR. SOLOMON: You asked him very general
18 questions. If you have a specific document you want to
19 point him to about a conversation he had or a question
20 about a specific customer or a specific point in time,
21 you can ask him, but asking him a very general question
22 about whether he's had any discussions about cost
23 savings, I think he's told you of course he has over
24 time, but he can't catalog those for you sitting here
25 today in September 2020.

1 BY MS. WAXMAN:

2 Q Does Ripple anticipate that it will cease
3 paying customers rebates, guarantees and incentives any
4 time soon?

5 A I think that will be corridor-specific as we
6 see various corridors achieve liquidity and kind of the
7 various flywheel dynamics we have discussed today but,
8 you know, we have already seen those incentives decrease
9 over the past 6 to 12 months significantly.

10 Q And how have you seen the incentives decrease?

11 A Well, we've restructured contracts with market
12 makers to decrease the costs to market makers. We have
13 continued to improve the efficiency of -- because of
14 those contracts being more efficient in what we're paying
15 them but also what they're doing, the spreads have
16 tightened. I think in some cases we've renegotiated
17 contracts with exchanges to provide discounts and so
18 we -- and we will continue to do those things and we will
19 continue, I expect, to see those costs decrease.

20 (SEC Exhibit No. 133 was marked for
21 identification.)

22 Q I would like to show you what's been marked as
23 Exhibit 133 in the third party document binder.

24 A Okay. I'm there.

25 Q Why don't you take a look at it. Let me know

1 when you're done.

2 A Just for my clarification, I think this is a
3 Ripple document and not a third party document, right?

4 Q Well, the document was not produced by Ripple.
5 It was produced by MoneyGram. I don't believe it was
6 part of Ripple's production.

7 A Okay. July 2019.

8 (SEC Exhibit No. 246 was marked for
9 identification.)

10 MR. CERESNEY: Just to let the record be clear,
11 Exhibit 246 looks to be -- has the same title on the
12 front, Scaling Global Liquidity for xRapid, except it's
13 dated June 2019 and this one is dated July 2019. I don't
14 know. I haven't compared that but it looks to be a
15 similar deck.

16 THE WITNESS: Yeah.

17 MR. CERESNEY: And that one was produced by
18 Ripple.

19 MS. WAXMAN: Yes, I have compared them.
20 They're not the same deck. The Exhibit 133 has
21 additional slides in it that are not included in Exhibit
22 246.

23 MR. CERESNEY: Okay. Obviously we produced
24 documents pursuant to agreed certain terms, et cetera. I
25 just don't want the implication to be that Ripple didn't

1 produce documents that it was required to.

2 MS. WAXMAN: No problem.

3 THE WITNESS: Okay. I've looked through it
4 loosely. I'm happy to comment.

5 BY MS. WAXMAN:

6 Q So do you recognize what's been marked as
7 Exhibit 133?

8 A I recognize it not in specificity, but in macro
9 concept.

10 Q And what is this Exhibit 133? Why was this --
11 was this document created by someone at Ripple?

12 A Yes.

13 Q And what's the subject of the document?

14 A Scaling global liquidity for xRapid, what we
15 now call On-Demand Liquidity.

16 Q And do you have any understanding why this
17 document was provided to MoneyGram?

18 A I don't. If I were to speculate, I would
19 imagine they were concerned about ODL's ability to
20 support growing volumes and they probably wanted to
21 understand how we intended to be able to deliver on that.

22 Q And how would Ripple support growth in volumes
23 on ODL by MoneyGram?

24 A By partnering with a set of market makers.

25 Q Now, if you turn to page 25 or slide 25.

1 A Are they numbered?

2 MR. SOLOMON: Yeah, very faint numbers.

3 THE WITNESS: I see it. Sorry. Okay.

4 BY MS. WAXMAN:

5 Q Earlier we talked about ODL order flow
6 imbalance. And does this slide also reference
7 one-directional ODL order flow imbalance?

8 A I would not use the word imbalance. It shows
9 one-directional flow.

10 Q And how do market makers redirect the flow?

11 A I'm not sure I understand the question you're
12 asking. How do market makers redirect which flow?

13 Q Well, my understanding is there's a lot of XRP.
14 The market maker has fiat and they use the fiat to
15 purchase XRP so they have a lot of XRP. So what do they
16 do with that XRP?

17 A I would be speculating to answer. I would have
18 to ask them exactly how they're measuring that on the
19 Treasury side for themselves. They could be using
20 bitcoin, they could be using traditional rails, they
21 could be using -- they could be moving that XRP.

22 Q But did you have an understanding that market
23 makers were using traditional payment rails on the back
24 end in order to support functioning of the ODL product
25 for users?

1 A Well, the function of the ODL product is a
2 distinction that I would not make. In order to increase
3 our ability to scale more quickly, we had partnered with
4 market makers who are providing liquidity. Those market
5 makers, their business is -- you know, they make money by
6 doing that. Some market makers may be participating in
7 some of these exchanges with whom we have no relationship
8 whatsoever.

9 How they manage their own treasury and balance
10 sheets, I would be speculating as to how they're doing
11 that.

12 Q Well, the slide says, "With one-directional
13 flow, our market makers leverage their prime brokerage
14 and banking relationships to ensure working capital being
15 available on xRapid exchanges."

16 A Yes. I read the same.

17 Q So someone at Ripple who drafted this
18 understood that market makers were using traditional
19 rails in order to support ODL flow, is that correct?

20 A I mean, you're putting words into that person's
21 mouth about using traditional rails. What I read is
22 they're leveraging prime brokerage and banking
23 relationships, which could be debt relationships. They
24 could be going to a local banking relationship in Mexico.

25 I mean, there's any number of things so it's

1 hard for me to know -- I think in my opinion, your
2 interpretation is different than what the words on the
3 page say to me.

4 Q Well, if you look at the image --

5 A I'm not --

6 Q -- it shows dollars being converted to Mexican
7 pesos.

8 A Yep.

9 Q And isn't International FCStone a traditional
10 rail entity?

11 A I have no idea what International FCStone is.

12 Q Is it an FX broker?

13 A I have no idea what International FCStone is.

14 Q Wasn't traditional -- the movement of money on
15 traditional rails needed for ODL to work?

16 A The movement of money in traditional rails is
17 needed to accelerate the volume that ODL can handle.

18 Q Was it needed to support MGI's volume?

19 A MGIs or any, you know, significant increase in
20 volume.

21 Q Did Ripple ever disclose the role that market
22 makers play and their use of, you know, traditional
23 payment roles on the back end to support the ODL product?

24 A I believe I have spoken publicly and I think
25 even some of the things that you shared with me today

1 that we work with market makers around the world.

2 Q Does it disclose that it provides fiat loans to
3 market makers?

4 MR. CERESNEY: Sorry, does --

5 BY MS. WAXMAN:

6 Q Does Ripple disclose that it provides fiat
7 loans to market makers in connection with ODL?

8 A I'm not aware of any -- as a private company --
9 dynamic -- I mean, we certainly aren't misleading the
10 market, and so I think we disclose that we work with
11 market makers, we disclose customers, as evidenced here.
12 They work market makers and they are part of the solution
13 set of what enables ODL to grow more rapidly as natural
14 liquidity grows in the market.

15 Q You said that you disclose that you work with
16 market makers. Do you disclose the actual payments that
17 you make to market makers in exchange for their services
18 in connection with ODL?

19 A I would highly doubt that we have publicly
20 shared the contracts we have with market makers and the
21 details of those.

22 Q Does Ripple subsidize the costs incurred by
23 market makers related to this FX trading using
24 traditional rails in connection with ODL?

25 A Does Ripple -- if I may parse that question

1 into does Ripple subsidize market makers -- subsidized is
2 an interesting word there. Ripple pays market makers and
3 could that be viewed as subsidizing something, I suppose
4 one could choose to characterize it that way.

5 Q What would happen if -- was it your testimony
6 that if market makers were not doing these things, ODL
7 couldn't support large volumes? Is that your testimony?

8 A I believe my testimony was we wouldn't be able
9 to scale ODL as quickly and support larger volumes.

10 Q Do you ever disclose publicly that the role of
11 the mark maker is critical to supporting, you know, rapid
12 expansion -- large expansion of ODL?

13 A I believe we have disclosed -- I know that I
14 have spoken publicly about the fact that we partner with
15 market makers as part of our business operations.

16 Q But you don't disclose that you pay them lots
17 of money in connection with ODL?

18 A I honestly don't know what we have disclosed.
19 I would be highly -- I think my testimony earlier was I
20 would be highly doubtful that we have shared the
21 specifics of any contracts we have with a market maker.

22 Q If you stopped paying market makers and they
23 stopped facilitating the role that we discussed in
24 connection with ODL, would that impact the ODL product?

25 A Yes.

1 Q And how would it impact the product?

2 I think you answered this but I'll ask it
3 again.

4 MR. SOLOMON: And I'm sorry, you built two ifs
5 in there. I want to make sure you're answering this. I
6 don't care what the answer is, I just want to make sure
7 you're answering appropriately.

8 You said if they stopped paying market makers
9 and if the market makers stop paying market participants?

10 BY MS. WAXMAN:

11 Q If Ripple stopped paying market makers, how
12 would that impact the ODL product?

13 MR. CERESNEY: Yeah, let's take it --

14 THE WITNESS: I don't --

15 MR. CERESNEY: And just to be clear, this is
16 like right now as opposed to down the road, right?

17 THE WITNESS: Right.

18 MS. WAXMAN: Yes.

19 THE WITNESS: So my honest answer there is I
20 don't know. I know, I actually have argued even
21 internally we're paying market makers to do what market
22 makers do. They make markets. And so the question is if
23 we exited the insensitive to market makers, would they
24 actually leave?

25 Now, what my guess is is that they couldn't

1 leave but they would not guarantee as tight a spread as
2 our contracts would require. So then in a -- over time,
3 this is what we will do is we will -- you know, there is
4 a natural liquidity that it has grown and continues to
5 grow. I mean, frankly, go back to when I joined Ripple,
6 the amount of liquidity in the crypto markets was tiny,
7 and today it's by many measures quite large.

8 So natural liquidity continues to grow. Market
9 makers participate in these markets because they want to
10 make money; they're profit-motivated actors. And to the
11 extent they see opportunities to make money, they will do
12 that.

13 Arguably we have helped accelerate their
14 participation in certain corridors and certain currency
15 pairs because we wanted to make sure that we could
16 support the MoneyGrams and other customers of ODL.

17 So to answer your hypothetical, if market
18 makers -- if we stopped incentivizing -- entering
19 contracts with market makers, what would happen to the
20 ODL product? I don't know.

21 BY MS. WAXMAN:

22 Q Would it have an impact on the acceleration of
23 the ODL product?

24 A I don't know.

25 Q Would that have an impact on XRP's price?

1 A I don't know.

2 MR. SOLOMON: Would what have an impact, if --

3 BY MS. WAXMAN:

4 Q If market makers no longer supported the ODL
5 product.

6 A I don't think that is knowable.

7 (SEC Exhibit No. 175 was marked for
8 identification.)

9 Q I would like to take a look at Exhibit 175.

10 MR. SOLOMON: Can we pause for a minute and
11 just maybe very quickly go off the record, just a reality
12 check? Because it's 6 o'clock.

13 MS. WAXMAN: We're off the record at 6 o'clock.

14 (A discussion was held off the record.)

15 (A brief recess was taken.)

16 MS. WAXMAN: We're back on the record at 6:07.

17 BY MS. WAXMAN:

18 Q Mr. Garlinghouse, while we were off the record,
19 did you have any substantive conversations with the
20 staff?

21 A I did not.

22 MS. WAXMAN: Counsel, will you confirm?

23 MR. SOLOMON: Yes, confirmed.

24 BY MS. WAXMAN:

25 Q I would like you to turn to Exhibit 175.

1 A Okay. I have it open.

2 Q Do you need a moment to take a look at it?

3 A Would you like me to read the whole thing?

4 Q No. Do you recognize what's been marked as
5 Exhibit 175?

6 A I recognize it only in context of preparation
7 for my testimony today.

8 Q Have you seen Exhibit 175 before?

9 A Not to my knowledge.

10 Q So you only saw it in connection with
11 preparation for testimony?

12 A That's correct.

13 Q Did you discuss with anyone the existence of --
14 well, strike that.

15 What is Exhibit 175?

16 A Exhibit 175 is a legal analysis and
17 recommendations regarding NewCoin, which is a predecessor
18 name to XRP as my understanding.

19 Q And who prepared the legal analysis?

20 A It was prepared by Perkins Coie and
21 specifically Dax Hansen and Naomi Sheffield.

22 Q And are those individuals lawyers?

23 MR. SOLOMON: Do you know?

24 THE WITNESS: I do know that Dax Hansen --
25 well, to my knowledge, Dax Hansen is a lawyer. I do not

1 know about Naomi Sheffield.

2 BY MS. WAXMAN:

3 Q And what is contain in Exhibit 175?

4 A My understanding from preparation on this is
5 it's a legal analysis covering a whole bunch of
6 recommendations. By memory, I think it was around 10
7 different recommendations about how what is now known as
8 Ripple should engage based upon the usage of NewCoin or I
9 guess context of NewCoin.

10 Q Did you have any discussions with anybody
11 regarding the recommendations in the memo, what's been
12 marked as 175?

13 MR. CERESNEY: That's a yes or no or I don't
14 recall.

15 BY MS. WAXMAN:

16 Q Other than conversations with counsel,
17 obviously.

18 A Other than conversations with counsel, I don't
19 recall.

20 (SEC Exhibit No. 176 was marked for
21 identification.)

22 Q Can you turn to Exhibit 176?

23 A Yes, it's open.

24 Q Do you recognize what's been mark as Exhibit
25 176?

1 A Only insofar as what I did in preparation for
2 this testimony.

3 Q Have you ever seen Exhibit 176 before prepping
4 for testimony?

5 A No. To my knowledge, no.

6 Q Were you aware of the existence of Exhibit 176?

7 A I was aware that outside lawyers had done
8 various analyses but I was not aware of any specificity
9 to that.

10 Q Were you aware that there was an October 2012
11 legal memo from Perkins Coie --

12 A No.

13 Q -- regarding Ripple credits?

14 A No.

15 Q I don't want to find out any legal advice but
16 when did you learn again about the existence of the
17 October 2012 memo?

18 A In preparation for this testimony.

19 Q You've referenced publicly that you believe XRP
20 is not a security, is that correct?

21 A That is correct.

22 Q Do you still have that belief?

23 A As a nonlawyer, layperson, judgment and I think
24 educated about business, yes, it's my opinion that XRP,
25 since it doesn't represent ownership in Ripple, doesn't

1 give anyone rights and title to Ripple governance rights.
2 And I think, again, as a layperson, if Ripple decided to
3 shut down tomorrow XRP trades at I think somewhere around
4 200 exchanges around the world and XRP would continue to
5 trade.

6 Q I believe you've stated previously that one of
7 the reasons XRP is in your opinion not a security is
8 because XRP has utility. Is that correct?

9 A I may have said that, yes. I don't recall a
10 specific time saying that certainly -- I suppose I may
11 have said that. I don't know.

12 Q Well, is that one of the reasons why you
13 believe XRP is not a security?

14 A I mean, as a nonlawyer, you're asking me kind
15 of -- you know, the reason why we're spending time
16 together is because people smarter than me from around
17 the law have interpretations. I'm making interpretation
18 based upon my view and the kind of key reasons are the
19 two that I highlighted up front.

20 There was a speech, as I recall, from Director
21 Hinman about utility. I can't remember exactly. Or
22 maybe it was a published list of criteria, that utility
23 was a factor but that's not necessarily one that I think
24 I frequently highlight.

25 Q When I use the term utility, do you know what

1 I'm talking about?

2 A I believe you're referencing a use case beyond
3 just speculative trading.

4 Q Did XRP have a use case?

5 A In what time period?

6 Q In 2017.

7 A I suppose it depends on who the user was, who
8 the buyer, who -- what they were doing with it.

9 Q Were you aware of any -- were any users -- were
10 any customers using XRP for cross-border payments in
11 2017?

12 A By Ripple? No.

13 Q By Ripple customers.

14 A Maybe the subtle point I'm making is that there
15 is a vast number of people, companies using XRP. I
16 obviously can't speak on behalf of all of them.

17 Ripple was not using XRP in any production
18 products in at least the majority of 2017.

19 Q So in 2017, Ripple's sales of XRP, who were
20 they targeted to?

21 A I mean, I would -- I would need to see who were
22 the buyers of XRP in 2017 from Ripple.

23 Q You just said that there were no actual users
24 of XRP for cross-border payments in 2017, so were the
25 sole purchasers of XRP that Ripple sold speculators?

1 THE REPORTER: I'm sorry, I didn't understand.

2 "Were the sole purchasers of XRP ever" --

3 BY MS. WAXMAN:

4 Q Were the people that Ripple was selling XRP to
5 using the XRP or were they buying for investment?

6 A I don't want to speak on behalf of -- I don't
7 know who you're referencing specifically. I don't have a
8 list of who those buyers were and if I did, I'm not sure
9 I would want to speculate on how they were using it.

10 Q But based on what you just said, you said in
11 2017, no one was using XRP in connection with ODL or any
12 Ripple-promoted product.

13 A In 2017, Ripple was not using XRP in production
14 for cross-border payment flows.

15 Q So were Ripple's sales -- who was Ripple
16 selling XRP to if they weren't selling to users?

17 A I don't have that information at my fingertips.

18 Q Do you have any understanding who Ripple was
19 selling XRP to in 2017?

20 A My loose viewpoint without specific information
21 in front of me would be that OTC sales would have been
22 to, you know, kind of bulk purchasers, you know, people
23 we have onboarded to an entity called XRP II but, I mean,
24 2017 was years ago and I'm not familiar with -- it's been
25 too long since I can recall who those purchasers were in

1 2017.

2 Q The sales through XRP II, were those to people
3 who were going to use XRP or were those sales to XRP
4 investors?

5 A I don't know who those buyers were and if I did
6 have it in front of me, I would probably be hesitant to
7 speculate on exactly what they were choosing to do with
8 the XRP once they received it.

9 Q But you do know that nobody was using XRP for
10 cross-border payments before 2018 and the introduction of
11 xRapid?

12 A I do not know that. I know that Ripple was not
13 using XRP for cross-border payments prior to roughly that
14 time period.

15 MS. WAXMAN: Okay. I don't have any further
16 questions. I don't think anyone from the SEC has any
17 further questions, but I want to provide counsel with an
18 opportunity to make any clarifying statements or to ask
19 any questions.

20 MR. SOLOMON: No. Thank you very much for the
21 opportunity but no, thanks. No more questions.

22 BY MS. WAXMAN:

23 Q Mr. Garlinghouse, thank you very much for
24 participating in today's testimony and thank you for
25 participating by Webex.

1 We don't have any further questions. If we do,
2 we will reach out to your counsel.

3 A Thank you very much.

4 MS. WAXMAN: It's 6:20. We're off the record.

5 (Whereupon, at 6:20 p.m., the examination was
6 concluded.)

7 * * * * *

PROOFREADER'S CERTIFICATE

In The Matter of: RIPPLE LABS, INC.

Witness: Bradley Kent Garlinghouse, Jr.

File Number: NY-09875-A

Date: Thursday, September 10, 2020

Location: New York, NY

This is to certify that I, Maria E. Paulsen,
(the undersigned), do hereby certify that the foregoing
transcript is a complete, true and accurate transcription
of all matters contained on the recorded proceedings of
the investigative testimony.

(Proofreader's Name)

(Date)

1 CERTIFICATE OF REPORTER

2 UNITED STATES OF AMERICA) ss.:

3 THE COMMONWEALTH OF VIRGINIA)

4 I, MARY GRACE CASTLEBERRY, RPR, the officer
5 before whom the foregoing deposition was taken, do hereby
6 certify that the witness whose testimony appears in the
7 foregoing deposition was duly sworn by me; that the
8 testimony of said witness was taken by me to the best of
9 my ability and thereafter reduced to typewriting under my
10 direction; that I am neither counsel for, related to, nor
11 employed by any of the parties for the action in which
12 this deposition was taken, and further that I am not a
13 relative or employee of any attorney or counsel employed
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16
17
18 _____
19 Notary Public in and for

20 The Commonwealth of Virginia

21 My commission expires: 07/31/2023
22
23
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